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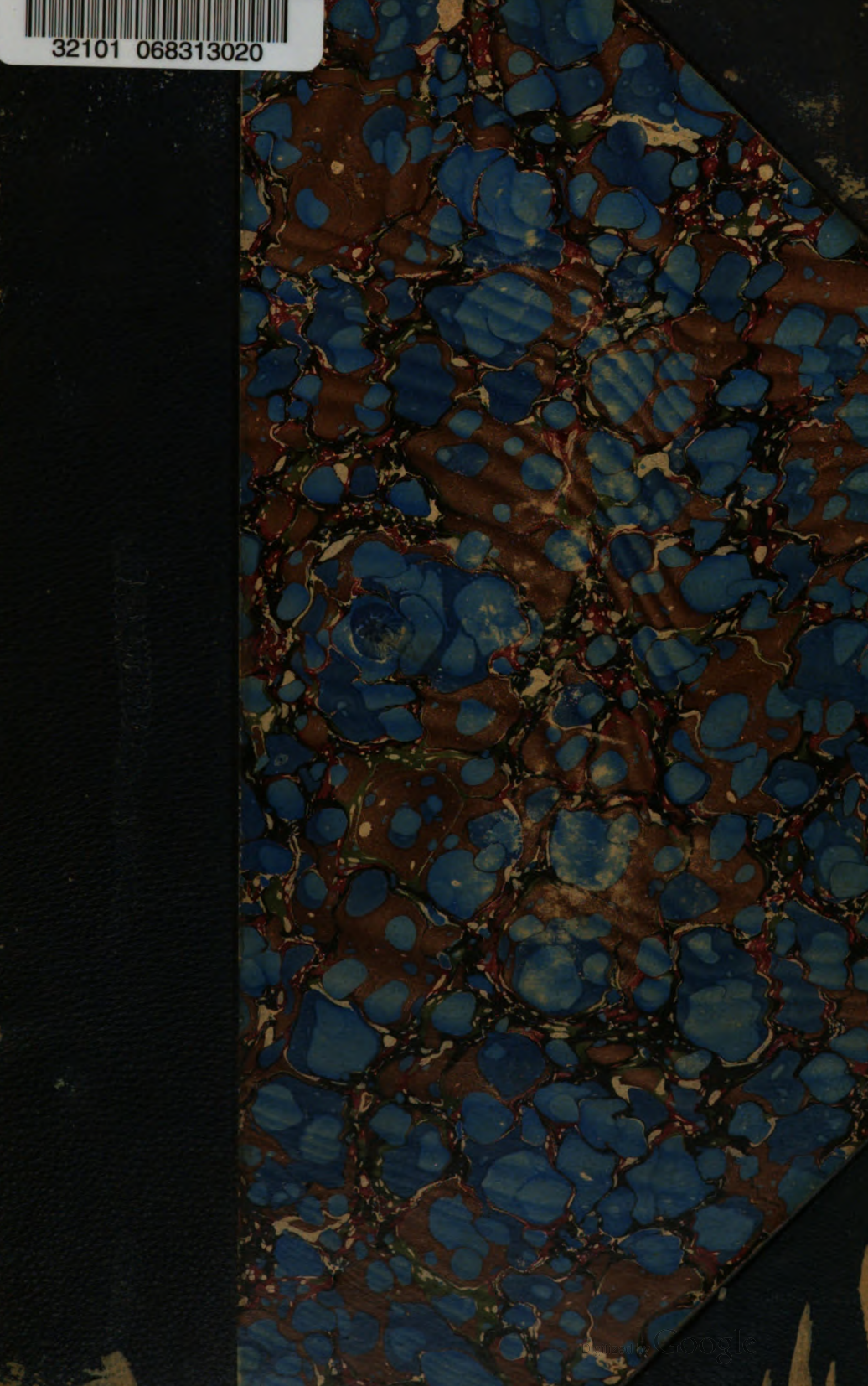

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AN ADDRESS

TO

SHAREHOLDERS

OF THE

PHILADELPHIA AND READING

RAILROAD COMPANY,

BY

FRANK S. BOND, PRESIDENT.

OCTOBER, 1881.

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To the Stockholders of the Philadelphia and Reading Railroad Company:

At the last election held for officers of the Philadelphia and Reading Railroad Company, the stockholders chose a new President and Board of Managers, to take in charge the business of the corporation. The change thus effected in the *personnel* of the management was made with careful deliberation, and with a firm conviction that the course adopted was an essential step in the work of re-establishing the broken fortunes of a company, which had formerly been most profitable to those interested in it.

Owing to delays caused by the litigation carried on by the retired board, the present managers did not obtain possession of their offices until April 21st, 1881, at which time in consequence of an order made by the Circuit Court of the United States, rooms were furnished in the company's building; but it was not until June 2d, 1881, after the Supreme Court of Pennsylvania had settled the validity of their title, that the position of the board was fully recognized, when they at once proceeded to investigate the affairs of the company and to consider plans for its financial relief.

According to the ordinary custom of the company, the annual report of its condition and operations will be presented in January, at the time fixed by the charter for the election. But in view of the fact that it has been publicly announced by the former president of the company, that he will ask the stockholders to reinstate the old managers in the position from which they were displaced, it is proper to make known officially, to the stockholders, a few of the facts which have come to my knowledge as to the past operations of the company, many of them of an unusual character, and to indicate the policy which the present management propose to pursue should it be re-elected in January next.

It is safe to say that the great body of stockholders of this company have no personal acquaintance with, or interest in, those whose names will be presented for their votes. The contest, therefore, is not one in which the electors can have any personal feeling. The motive which will influence the votes

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of those who have invested in its stock, will be a desire to secure for the company, such a prudent management as will result in a restoration to its former position, as a regular dividend-paying corporation.

Recognizing that this will be the controlling motive in the minds of the shareholders at the coming election, I feel that it is appropriate at this time, to ask them to look into the financial operations of the former management, and, after such examination, to decide, whether, taking these operations as the only guide which experience can give them, there is anything in their history, to justify the restoration to power of those, under whose direction these operations were carried through.

The class of shareholders who have no inclination for the consideration of details or exact figures, but who have relied upon the dividends which with great regularity were paid for many years upon the stock of the company, are probably satisfied by the absence of dividends, that the affairs of the corporation have not been carried on with prudence and discretion.

Shareholders, however, should know how they have been deprived of dividends, and in what manner the company, for the time being, has lost the ability to pay its fixed charges.

Mr. Gowen was elected president of the company on the twenty-eighth day of April, 1869, and the annual report for that year, the *first* published over his official signature, shows that the company then earned *net*, its rentals, $609,180, its fixed charges for interest, $484,303, and, in addition, $3,276,919, equal to eleven and three-tenths per cent. as a dividend fund for $29,023,100 of stock then outstanding. For each of the four previous years, the net results to shareholders had been substantially the same.

These net results, were arrived at, after deducting expenditures aggregating $569,106 for new construction work done, and for equipment purchased, in 1869. Under the accounting system then in force, these items were charged currently to operating expense account. Under Mr. Gowen's administration this system was changed, and such expenditures are now charged to construction and equipment accounts.

The *last* report published over his official signature as president, shows that in 1879 the company did not earn its fixed charges for interest and rentals by $3,608,754, and earned nothing at all on

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$34,278,175 of share capital. In other words, for the year 1879, the company had run behind in comparison with 1869, $3,608,754, in its fixed charges, and was short $3,873,434 in its dividend fund, a difference of $7,482,188 in net results to shareholders, in a single year, after ten years of Mr. Gowen's administration. A similar statement made up for 1876 shows the deficit to have been... $6,912,680

In 1877 the deficit was	6,515,920
" 1878 " "	7,291,549
" 1879 " "	7,482,188
Total deficit	$28,202,337

in net result to shareholders, during the last four years of Mr. Gowen's administration, an average of $7,050,584 per year in comparison with 1869, the year in which Mr. Gowen took charge of the property of the Philadelphia and Reading Railroad Company.

A comparison of the capitalized cost of the property, as shown by yearly reports for 1869 and 1879, the first and last years of Mr. Gowen's management as president of the company, shows that during ten years

Capital stock was increased	$5,255,075
Funded Debt was increased	66,535,119
Other indebtedness was increased	8,868,465
which is an increase of	$80,658,659

in the direct liabilities of the company. To this amount should be added the increase in rentals paid by the company from $609,180 in 1869 to $2,943,317 in 1879. The difference, $2,334,137, capitalized at six per cent. would be..... 38,902,283

Making the total increase of Railroad Company capital during the ten years $119,560,942

These figures do not include direct liabilities of the Coal and Iron Company, for which the Railroad Company is either directly or indirectly responsible, as follows:—

Funded debt	$15,324,898
Other indebtedness	2,403,121
Total	$17,728,019

which is an additional increase of capital, as the Philadelphia and

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Reading Railroad Company is the sole stockholder in the Coal and Iron Company. Adding this amount makes the total increase in capital accounts, for such property as was acquired by the company, one hundred and thirty-seven million two hundred and eighty-eight thousand nine hundred and sixty-one dollars ($137,288,961) during the ten years of Mr. Gowen's administration.

That the unfortunate results just referred to have been attained no one disputes, but those who are responsible for it, endeavor to escape censure by alleging that the misfortune was mainly due to the company being placed in the dilemma of being compelled to buy coal lands or of losing the traffic of the railroad.

The coal lands were bought, and the present indebtedness piled up against the company. The excuse was, that if the coal lands had not been bought, the business of the company would have been diverted over other roads, and the company driven into as certain insolvency as that in which it is now found, with no possibility of future restoration.

The weakness of this excuse is at once manifest, when the true facts are stated. I do not suggest that the policy of purchasing coal lands at proper prices and within prudent limits was not wise and necessary. Nor are the extravagance of the prices paid, and the character of lands purchased, the sole grounds upon which the stockholders have a right to complain. They can also properly insist that the purchases made were out of all proportion to the ability of the company to pay for them; and that the recklessness which characterized the purchase of the coal lands is exhibited in nearly all the other transactions of the company of a similar character from 1869 to 1880.

There are many things which it may be very desirable to possess, which it is utter madness to purchase at the price which the seller may ask for them; or to buy at all however low the price, if the buyer has not the money to make payment, or the means of making use of the property bought. This rule is as applicable to corporations as to individuals. But the eye of the former management seems to have been open only to discover some new property, railroad or canal, the ownership or control of which carried with it some supposed or possible advantage to the company, and then, however remote or speculative such advantage might be, the rule seems to have been to secure the property, cost what it might.

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Failure of Promises.

The annual reports from the time when the embarrassments of the company were first made known, are but a yearly succession of promises of immediately returning prosperity, and at the same time a yearly admission of failure to realize the hopes of the past.

Such repeated misjudgment can only be explained, upon the theory that there existed a radical inability upon the part of the management to grasp the business questions presented.

In the report to the stockholders, presented January 8th, 1877, after giving the indebtedness of the Coal and Iron Company to the public, as amounting to fifteen million seven hundred and twenty-eight thousand and forty-one dollars and sixty-eight cents ($15,728,041.68), and the annual interest charge upon such indebtedness as $989,575, the following statement is made:—

"A mere royalty of about thirty-three cents per ton upon the coal taken from the lands during the last year would supply enough to meet this interest; and it is confidently believed that a sum less than thirty cents per ton as rent or royalty of the coal which will be taken from the estate during the coming year will furnish sufficient to meet all the interest which the company is obliged to pay the public. *With the improvements already made upon the property,* and the facilities thereby obtained for economical mining, the managers feel that even if the business of mining coal during the coming season is as ruinous as it has been during the past year, and the prices as low as these which have prevailed during the last three months, *a sum sufficient to pay the interest charges of the Coal and Iron Company can be made out of the receipts from tenants, and out of a fixed sum saved from the proceeds of each ton mined by the company as representing a moderate royalty.*"

After referring to other matters, the fixed charges of the Railroad Company are then stated to be $5,279,367. In reference to the ability to meet these, the following statement is made:—

"The fact that in the last three months the Railroad Company, after payment of premium on gold and exchange, and all rents upon leased lines of railways and canals, and deducting all losses in business and depreciation of materials, realized, notwithstanding the exceptionally low rates of transportation, a net profit, all of which was strictly applicable to interest and sinking funds of $1,764,068.07, would clearly indicate that in the most unfavorable condition of affairs the net profits may be relied upon as sufficient to meet these charges, and with the strict economy now enforced and about to be continued in all the departments of the company, the managers have *no doubt of the ability of the company to earn sufficient to meet its fixed charges.*"

How far the promises of this report were realized, is seen by a reference to the report presented to the stockholders on January 14th, 1878, from which it appears that the Coal and Iron Company, instead

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of paying its working expenses, and interest on its obligations held by the public, fell short of paying its working expenses $755,-478.37, to which sum must be added the interest on its direct obligations amounting to $1,020,378.26, showing a miscalculation of the results of the year's business of one million seven hundred and seventy-five thousand eight hundred and fifty-six dollars and sixty-three cents ($1,775,856.63).

The net earnings of the Railroad Company for the year applicable to interest were $4,373,021.80. The fixed charges which the management in the previous report had promised to meet were $5,279,367, showing a miscalculation upon this account of $906,345.20, making a total miscalculation upon the business of the joint companies of $2,682,201.83.

The cause of this miscalculation is not explicitly stated in the report, but the unsatisfactory result of the year's business is explained in general terms as consequent upon the low price of coal, the average price for the year having been 2.40\frac{9}{10}$ per ton on board vessel at Port Richmond. The stockholders are however informed that

"*Had the price of coal prevailing during the year been one dollar per ton higher than it was*, which price would not have been more than the lowest yearly average for forty years, and certainly barely enough to warrant the investment of private capital in the coal business, *the net result of the operations of the two companies for the year would have been at least* $4,000,000 *better than it was*, or, stated in other words, whenever coal reaches only the lowest price it has ever previously realized, excluding the present and part of the past year, the company can save eight per cent. upon its capital stock, and every additional eight cents added to the price of coal would be equal to an additional one per cent. upon its share capital."

The further statement is then made that a board of control had been arranged, and a fair price for coal thus assured for the ensuing year.

In the report presented to the stockholders on January 13th, 1879, the following appears:—

"*Owing to the failure of the recent association of coal companies* to secure for coal a sufficiently increased price to compensate for the great loss of tonnage sustained by the company in consequence of the restrictions imposed by the association, *the anticipations formed last year of profits to result from the coalition have not been realized*, and the managers have not only been unable to make any reduction of the floating debt, but its volume has been increased by the amount represented by wages certificates now outstanding."

The receipts of the Coal and Iron Company during the year were $752,049.14 short of meeting the working expenses, which sum,

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added to its interest charge of $1,088,086.46 which the Railroad Company was obliged to meet, made a deficit of..... $1,840,135.60
Without making any allowance for the sinking funds, the Railroad Company failed to meet its fixed charges by..... 832,047.34

Making a total deficit of $2,672,182.94

In the same report, the future prospects of the company in an era of unrestricted production are thus referred to:—

"*In open competition for the market* with the admitted excellence and great variety of Schuylkill coal, *and no restrictions upon production, the managers have no fear of the ability of the company to meet all of its cash fixed charges;* but they can not contemplate without a shudder the prospect of again tying their hands by agreements such as those made in 1876 and 1878, under which it is in the power of one interest to render abortive any attempt to secure increased profits, *and they would be guilty of gross mismanagement if they consented to any further restriction of production* that was not accompanied by practical and effectual guarantees that the reduced output should yield at least as great a profit as the increased quantity which could be mined and transported in open competition."

But, notwithstanding the year 1879 passed without any agreement being made for the restriction of coal production, open competition showed no better result in the report presented to the stockholders on January 12th, 1880.

The receipts of the Coal and Iron Company again fell short of meeting its working expenses by.....	$699,450 85
Which, with interest charge of.....	1,054,985 99
Made a total loss on its business of.....	$1,754,436 84
The Railroad Company, without making any provision for its sinking funds, failed to meet its fixed charges by the sum of.....	1,063,421 73
Making the total loss on the business of the two companies.....	$2,817,858 57

It is true that all this loss, as well as that incurred in the years 1877 and 1878, was not directly added to the floating debt of the company, as provision was made for the settlement annually of about $1,800,000 in scrip, amounting in all to $5,158,569, which will mature July 1st, 1882. But this fact does not alter the estimate which business men must place upon a policy, which, year after

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year compelled the company to admit its inability to meet over $2,500,000 of interest charges. Nor should it affect the opinion to be formed of the business judgment of those who, after the experiences referred to, proved themselves so incapable of appreciating the real position of the company's affairs and its prospects in the near future.

The report presented to the stockholders on January 12th, 1880, was the last published by the late president. The insolvency of the companies was announced about four months afterwards, but the tone of this last report would indicate, that even then the experiences of the past were unheeded.

In this report the following is found:—

"In view of the greatly improved condition of business, *the managers have not hesitated to increase the floating debt* for the purchase, erection, and completion of such facilities as seemed to them absolutely necessary, and without which the company would have been unable properly to move the very large tonnage expected in the immediate future." * * * "Roughly stated, the total net earnings of the railroad company for the past year were equal to fifty cents per ton for each ton of coal transported, and the losses of the Coal and Iron Company were seventeen cents per ton for each ton mined. *As the average price of coal at tide water for* 1880 *will undoubtedly be* $1.50 *per ton higher than it was in* 1879, *as the Railroad Company will move about* 9,000,000 *of tons and the Coal and Iron Company will mine nearly* 5,000,000 *of tons, and as the increase of merchandise and passenger business may be relied upon to cover the increased expenses of working the road, the net profit of the company after payment of all charges except interest may be expected to be—*

For the Railroad Company,	8,700,000
For the Coal and Iron Company,	2,500,000
	11,200,000
Deduct fixed charges and full sinking fund, say	7,000,000
	4,200,000

equal to 12 *per cent. on the share capital of the company.*

It appears by this report, that the attention of Mr. Gowen had been called to the fact that his estimate of the company's affairs were "sanguine" and "rose colored," and yet he persisted in the statement above quoted. In the same report the following is found:—

"Now, however, that it is practically demonstrated that the demand for the coming year will exceed the supply, the majority of the anthracite coal companies, who have been continuously striving to make money, can regard with indifference any attempt on the part of the minority to keep prices below a rate which will yield a fair profit to the trade," * * * "the total possible productions of 1880 can not be over 28,500,000, with a strong probability that it will be much less. * * *

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It is quite safe to dismiss all apprehension about the future of the trade. All the coal that can be mined and transported will be wanted; the prices fixed by any one company need have no influence on those asked by others, and the advocates of low prices and restricted production can injure none but themselves by putting their theories into practical operation."

No further comment need be made upon this promise of a twelve per cent. dividend during the year 1880, than to say that on May 21st, 1880, four months after the date of the report, the company went into the hands of receivers; and within sixty days after such date, Mr. Gowen was again compelled to enter into an agreement for restricting the production of coal by working only half time, which agreement continued in force until the next September, and had again to be adopted during the greater part of the present year.

Shareholders must not infer from the disastrous results of the year just referred to, that the real earning power of the company's property is represented by the figures given. The Reading Railroad is possessed of advantages which, if it be properly cared for, should make it one of the most profitable enterprises in the country. Great savings may be made in working its various properties, and even with the present load of debt, by the careful husbanding of its resources, the company may be extricated from embarrassment. The inability of the company in the past to meet its fixed charges, has not been solely due to the increase of these charges. Year after year the earnings have been wasted in undertakings entirely foreign to the legitimate business of the railroad company.

To some of these expenditures of the money of the Philadelphia and Reading Railroad Company, I shall briefly call attention:—

Susquehanna Canal.

One of the most striking instances is found in the leasing of the Susquehanna Canal. The first mention of this lease is found in the report presented to the stockholders on January 8th, 1872, in the following words:—

"Since the close of the year's business, the managers have authorized the lease of the Susquehanna Canal, extending from Columbia to the tidewater of the Chesapeake Bay, and forming with the Reading and Columbia Railroad an outlet for the coals of the western part of the Schuylkill coal field. * * * The possession of these works seemed to be necessary to the proper development of the western coal fields, and it is believed that with the increased coal tonnage of the Reading and Columbia Railroad, and the great addition to the traffic which must result from the enlargement of the Pennsylvania canals, the business of the canal will soon become large enough to reimburse the company for the annual outlay."

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The rental of this canal during the first year was.....	$167,730 42
During the first year (1872) the gross receipts of this canal were.....	99,151 20
And the net receipts after payment of operating expenses were.....	51,240 34
Under the terms of the lease the rental has been increased from time to time. It now amounts to.....	243,488 64
During the year ending Nov. 30th, 1880, the gross receipts were.....	55,260 55
And the net receipts.....	19,281 15
Leaving a net loss for the last year upon this lease of...	$224,207 49

Extravagance of which this is an example is the source of the financial disaster which has overtaken the company.

An undertaking to pay a rental of $243,488 for a property whose gross receipts amount only to $55,260, is a piece of financiering which is certainly not prudent.

The effect of this lease has already been, to withdraw from the treasury of the Philadelphia and Reading Railroad Company in the nine years it has run, one million six hundred and thirty thousand five hundred and twenty-one dollars and twenty-five cents, ($1,630,521.25).

Schuylkill Canal.

The lease of the Schuylkill Canal is another instance of the same disregard of the value of money. This lease has resulted in an average net annual loss to the railroad company of one hundred and seventy-eight thousand one hundred and forty-five dollars and seventy-three cents ($178,145.73).

Now it might be supposed that although these leases had eventuated in temporary loss, they had been made in pursuance of some far-reaching plan which, though for the time expensive, would eventually result in a profit. That no such plan existed, indeed that the former management never had any settled theory of the true relations of the railroad company to the canal, is manifested by a comparison of the annual reports of 1872 and 1873. In the report of 1872, the following appears:—

"The loss upon the Schuylkill Canal was $351,265.52. Had the Schuylkill Canal been closed for the year, its entire rentage account, $642,336.13, charged to profit and loss, and its coal tonnage of 883,190 tons transferred to and carried by the railroad, it is believed that the profit of carrying its tonnage by rail would have

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exceeded the rent account of the canal, so that the net result of the year's business would have been at least $350,000 better than it now is." "It was not thought wise, however, to sacrifice the future for the present gain. The canal has a capacity of from 1,500,000 to 2,000,000 tons per annum, and *it can not be long before the railroad will be so crowded with business that the value of such an outlet will be apparent.*"

In the report of 1873 is found the following:—

"At the average rates of tolls it will require a business of from 900,000 to 1,000,000 of tons per annum upon the Schuylkill Canal to realize a profit sufficient to pay the cost of working it, including the rent account and sinking fund; and though such a business could be thrown upon it at any time, it is manifestly to the interest of the company to keep as much tonnage upon the railroad as possible, and *use the canal as a dripping-pan to catch whatever may overflow from the railroad,* which will doubtless soon be enough to make the canal profitable *per se.*"

No one will suggest that the writer of the annual report just quoted intended to be humorous in styling the Schuylkill Canal a "dripping-pan" to catch the overflow of the Reading Railroad; yet, in a very serious sense, this canal has been a "dripping-pan" which has caught very large sums of money, that have been withdrawn annually from the treasury of the railroad company.

The results of these two leases may be summarized as follows:—

In 1871, the properties of the Schuylkill Navigation Company were acquired under a lease subjecting the company to payment of an annual rental which up to November 30th, 1880, amounted to the sum of..... $6,335,523 24

The net revenue derived from this property during the same period was but..... 4,554,065 93

A loss of..... $1,781,457 31

or at the rate of $178,145.73 per annum.

In 1872, the properties of the Susquehanna Canal Company were acquired under a lease subjecting the company to payment of an annual rental which up to November 30th, 1880, amounted to the sum of..... $1,694,194 54

The net revenue derived from this property during the same period was but..... 63,673 29

A loss of..... $1,630,521 25

or at the rate of $181,169.03 per annum.

In order to obtain the basis for an issue of bonds by the Schuylkill Navigation Company, in 1872, the following book entry was made, debiting an account that is still continued as an asset, among

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the property accounts of the company called, "Schuylkill Navigation Works and Franchises":—

"For amount assumed as the value to the Philadelphia and Reading Railroad Company of the lease of the works and franchises of the Schuylkill Navigation Company for nine hundred and ninety-nine years, as upon payment of the guaranteed loan of $1,200,000, the rent of the canal will be reduced by the amount of $72.000 per annum.....$1,000,000."

This is an attempt to increase profit and loss and property accounts by a purely fictitious entry on the books. As there has been an average yearly loss to the Reading Railroad Company of $178,145.73 under this lease, the entry is deceiving, as it represents nothing of value; and it would seem to be altogether inexplicable on any recognized principles of book-keeping.

Catawissa Railroad.

In October, 1872, the properties of the Catawissa Railroad Company were acquired under a lease subjecting the company to the payment of an annual rental that up to November 1st, 1880, amounts to..... $2,733,177 50

The net revenue derived from this property during the same period was but..... 1,263,322 08

A loss of..... $1,469,855 42

or at the rate of $183,731.92, per annum.

Shipyard at Port Richmond.

An expenditure of $1,038,025 was made for a shipyard at Port Richmond—$462,216 for land and $575,809 for improvements. These expenditures were incurred mainly in 1873–4. The shipyard was intended for the construction of steam vessels. It was ordered to be constructed of capacity to build thirty ships the first year, and after that fifty ships per annum. It has never been in use, and has never yielded revenue enough to pay the watchman in charge. In order to get rid of it from the balance-sheet, the cost was transferred on the books of the company to "Depots." Including interest and taxes paid, this unproductive property stands the company in more than $1,600,000. A recent inspection shows, that it will require an expenditure of $52,000 to restore waste and deterioration of the launch-ways, buildings, &c., arising from non-usage.

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Montour Iron and Steel Company.

In the year 1880 the company purchased nine-sixteenths of what is now known as the Montour Iron and Steel Company property, for $450,000, upon which it has paid $428,000 in money. This is at rate of $800,000 for the whole property. In a petition filed in a suit brought in the Circuit Court of the United States, October Sessions, 1878, by Roque de Lara, complainant, to enforce payment of certain bonds secured by a mortgage covering the property of the Pennsylvania Iron Company (now the Montour Iron and Steel Company), upon which interest was in default, the parties who sold to the Reading Company being defendants, it is alleged that—

> "The defendants, by most distinct implication, also stated that the property mortgaged was not worth the mortgage debt, or at least could not be expected to sell for enough to pay the same."

The amount of the mortgage debt was then $250,000, and a settlement was subsequently made with holders of most of these mortgage bonds at the rate of seventy per cent. of their face value.

The railroad company has never received any revenue from this investment. The large purchase price paid, did not cover personal property—old iron, supplies and materials on hand—and the Montour Company paid $183,576.73 additional for property of this character.

In addition to this purchase, in the early months of 1880, when the suspension of the company was imminent, purchases and leases of new collieries were also made. By such purchases money was withdrawn from the treasury, which a prudent executive should have appropriated to meet pressing indebtedness. The sums so diverted, with the losses made by Mr. Gowen in old rail and coal purchases, and other speculations, hereafter referred to, were the immediate cause of that depletion of the company's treasury, which terminated in acknowledged insolvency and the appointment of receivers.

Tamaqua Coal Lands.

In 1872, what is known as the Tamaqua Company's land, four thousand nine hundred and fifty-one acres, was purchased for $2,250,000. A purchase-money mortgage for $1,680,000, with interest at the rate of seven per cent., free of taxes, was guaranteed by the Railroad Company, and the balance, $570,000, was paid in cash.

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In 1864, this property had been purchased by a coal company at a cost of $650,000. About $1,000,000 was expended in developing the property, but the veins were faulty, and it was never made to yield revenue.

After its sale to the Philadelphia and Reading Coal and Iron Company for $2,250,000, that company expended $244,426 in developing the property, but such work has for several years been abandoned.

Mr. Harris, a mining engineer, who made an examination and valuation of the company's properties for the Receivers in July, 1880, says:—

"There are at present no working collieries within the limits of this estate, except West Lehigh Shaft Colliery, which is shipping at the rate of ten thousand tons per annum."

In closing an elaborate description of this property, Mr. Harris says:—

"*The computed value of this estate* $1,388,797, is based on an anticipated production of 200,000 tons, to be obtained in 1885 by re-opening New Kirk and Buckville Collieries, and an additional product of 300,000 tons, making 500,000 tons in all, to be realized by 1890 from Wabash and West Lehigh Shaft Collieries and a new colliery to be opened by sinking a shaft, which would probably be nine hundred feet deep. This is the utmost that these lands can be expected to do, and only because they are so near to market, and therefore will have an advantage in freights, can their development with this rapidity be at all justified."

"Were there no incumbrance on this property, or but a small one, and were this the only tract about the retention of which there could be any doubt, it might wisely be kept to serve, as it was originally intended, as a barrier to aggression on the part of rivals; but under all the circumstances I have no hesitation in saying that *the incumbrances are far beyond its value to the company*, and I advise Receivers to pay no more interest, and to part with the estate on the best attainable terms, unless the liabilities can be reduced at least one-half and the interest lowered to six per cent. I think, however, the wisest course will be to part with the property entirely."

The present incumbrance on this property is $1,640,000, bearing seven per cent. interest per annum, free of taxes. The result of this operation is an annual interest charge upon the Reading Company of $114,800, on account of a property which produces practically nothing.

Iron Ore Lands.

In 1874, a tract of twenty-seven hundred and ninety-three acres, known as the "Putnam County (N. Y.) Iron Ore Lands," was purchased. For this tract purchase-money seven per cent. bonds to the extent of $345,000 were guaranteed by the Reading Company,

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and $80,000 additional in cash was paid, making the total cost of the property $425,000

Only forty-nine hundred and forty-five (4945) tons of ore have been taken from the property since it was acquired, while the interest charge for which the company became liable is $24,150 per annum. This amounts to $169,050 for the seven years since the purchase was made, in addition to the money payment of $80,000.

Coal Yards.

Expenditures have been made in the purchase of coal yards for retailing coal in the city of Philadelphia. But few of these yards are now in use by the company, and the remaining properties are for sale, and can not be disposed of except at a sacrifice. The cost of these yards was..... $1,396,517

Investments for real estate and improvements have been made at Salem, Mass., of.....	$368,009
Investments for real estate and improvements have been made at Brooklyn, N. Y., of.....	534,477
Investments for real estate and improvements have been made at Newburyport, Mass., of.....	150,210
Investments for real estate and improvements have been made at New Bedford, Mass., of.....	112,089
Investments for real estate and improvements have been made at New York city of.....	67,000
Total.....	$2,628,302

The unwisdom of such outside investments of borrowed capital need not be commented upon.

Coal Speculations.

In the summer of 1879, when an attempt was made to maintain the price of coal by combination, the Delaware and Hudson Canal Company declined to assent to the card rates it was proposed to adopt. The Reading Company thereupon offered to take the entire product of the Canal Company at the card rates, less the usual commissions to large buyers, and under this arrangement in June, July and August, 117,232 tons were bought at the rate of $2.54 per ton, or $297,913.

This coal was afterwards sold by the Reading Company at $2.17 per ton, or $254,805, an apparent loss of $43,108.

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The coal was charged as sold with the foregoing loss, but it is stated in explanation, that 61,900 tons stored for several months by the Reading Company, was subsequently retailed during the winter of 1880 at somewhat better rates than the price it was charged to the yard.

Pig Iron Speculations.

In 1876-7, Mr. Gowen entered into a transaction for account of the company in pig iron. Thirty-six thousand five hundred and forty-two tons of pig metal were produced at the various furnaces controlled and operated by the Coal and Iron Company during those years, and eighteen thousand three hundred and fifty-six tons additional were received from sundry iron furnaces in settlement of freight tolls, and for coal, and iron ore furnished.

The records show that the loss on the iron produced by the Coal and Iron Company was.....	$260,648 59
And upon the eighteen thousand three hundred and fifty-six tons acquired from other furnaces the loss was,.....	258,715 14
A total loss of.....	$519,363 73

on this pig iron transaction.

Old Rail Speculations.

Contracts for the purchase of old rails from Europe were made by Mr. Gowen for account of the company in 1879 and 1880, as follows:—

A.	5,994	tons @	$41 57	per ton.....		$249,170 58
B.	10,179	"	44 50	"	.....	452,965 50
C.	3,000	"	34 00	"	.....	102,000 00
D.	5,000	"	43 50	"	....	217,500 00
	24,173	"				$1,021,636 08

The loss on contract A charged to profit and loss account, November 30th, 1880, was.....	$90,489 21
The rails covered by contract B were accepted and paid for by the receivers at current rates on delivery. The parties who sold these rails have an adjusted claim against the company for reclamations amounting to	182,619 00
Am't carried forward...	$273,108 21

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Am't brought forward...	$273,108 21
Delivery was not accepted under contract C, but a claim is made against the company of $6 per ton under this contract.....	18,000 00
A delivery of 1075 tons of rails was made under contract D, and the parties who sold have a claim for reclamations of about $16 per ton on 3925 tons not accepted, say.....	62,800 00
Making a loss of.....	$353,908 21

on these old rail purchases.

There was a loss to the mills in working up the rails delivered under contract D, that was charged to profit and loss account in the mill accounts. The amount, if included in this statement, would undoubtedly swell the loss on these transactions to nearly four hundred thousand dollars.

Payment of Unearned Dividends.

A sworn statement of the comptroller of the company, shows that during the years 1871–2–3–4–5, the net earnings of the Philadelphia and Reading Railroad Company—less losses from working properties, of the Coal & Iron Company, and interest on its direct liabilities—over and above operating expenses and interest, were but	$2,829,273 70
There was paid out for dividends and taxes on dividends during the same period.....	18,040,264 32
An excess of.....	$15,210,990 62

of which $14,442,570.34 was charged to cost of the coal lands. These figures do not include any charge of the Railroad Company against the Coal and Iron Company for interest on its cash advances for account of the latter company, as both corporations having a common ownership, such book entries are misleading. If made, the practical result is the same; capital account is increased, only the form of entry on the book is different.

Coal and Iron Company.

In the Annual Report for 1871, there appears the following statement in reference to the proposed purchase of coal lands:—

"In order to provide the means to make these purchases a loan of $25,000,000 was authorized, and secured by a mortgage, dated the first day of June last,

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executed to the Fidelity Trust and Safe Deposit Company of Philadelphia, a copy of which mortgage is annexed to this report. Of the loan thus authorized * * * *the balance, $11,962,000 have already been issued for the purchase of coal lands. Up to this time, about seventy thousand acres of the best anthracite coal-lands in Pennsylvania have been acquired, and will be held by an auxiliary company, known as the Philadelphia and Reading Coal and Iron Company,* of which the Philadelphia and Reading Railroad Company is the only stockholder.

"The result of this action has been to secure and attach to the company's railroad a body of coal-land capable of supplying all the coal tonnage that can possibly be transported over the road for centuries. This result has been obtained without imposing any serious financial burden upon the company, for the lands purchased are already so far developed that it is estimated they will produce in rents during the year 1872 $1,200,000; and it is believed that *in less than three years, the net annual revenue arising from the lands will be greater than the interest payable upon the loan issued to secure them."*

On the 31st of May, 1881, just ten years after the above statements were made to the shareholders, the capitalized cost of the properties owned and controlled by the Philadelphia and Reading Coal and Iron Company stood at.....$73,788,044 35

Of this amount the Railroad Company had advanced in cash.....$56,033,289 72

leaving as direct liabilities of Coal and Iron Company $17,754,754 63

The following tabular statement shows the loss in working the coal and iron properties, and the amount of interest on its direct liabilities each year, for ten years, from 1871 to 1880, both inclusive.

Philadelphia & Reading Coal and Iron Company.

Year.	Profit and Loss in Working.	Interest on direct liabilities other than the $56,033,289.72 advanced by the R.R. Co.	Total Loss.
1871	Profit, $207,876 66	$882,864 70	$674,988 04
1872	Loss, 135,166 52	1,042,719 10	1,177,885 62
1873	Loss, 328,647 43	1,448,177 80	1,776,825 23
1874	Profit, 504,221 74	1,936,812 01	1,432,590 27
1875	Loss, 545,728 04	1,856,197 33	2,401,925 37
1876	Loss, 653,359 03	824,575 29	1,477,934 32
1877	Loss, 755,478 37	1,020,378 26	1,775,856 63
1878	Loss, 752,049 14	1,088,086 46	1,840,135 60
1879	Loss, 699,450 85	1,054,985 99	1,754,436 84
1880	Profit, 487,883 24	1,189,491 72	701,608 48
	Loss, $2,669,897 74	$12,344,288 66	$15,014,186 40

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Total loss in ten years	$15,014,186 40
Average yearly deficit	1,501,418 64
If to this deficit is added six per cent. on $56,033,289.72, advances of the Railroad Company upon which no interest has been paid	$3,361,997 38
Will make the yearly deficit	4,863,416 02

This was the practical result of the new policy inaugurated by Mr. Gowen in 1869 and 1870, for the Railroad Company to increase its tonnage, by the purchase of coal lands, and by working coal mines and iron properties.

These statements should not be construed as a criticism upon the policy of a transportation company owning and working coal properties. Such a policy had long before Mr. Gowen's connection with the Reading Company been inaugurated, and put into successful operation by The Pennsylvania Canal Company, The Delaware and Hudson Canal Company, The Delaware, Lackawanna and Western Railroad Company, and other transportation companies. The statements are intended to show the unwise and extravagant manner in which coal and iron properties have been acquired, and worked under the late management.

There are many other similar cases of improvident expenditures in the purchase of coal lands, iron ore mines, iron furnaces, mills, and other properties, and of questionable entries upon the books of the company, that might be given; but the foregoing are sufficient to enable stockholders to judge of the general character of the expenditures during ten years of Mr. Gowen's administration, which have added, for property acquired, one hundred and thirty-seven million two hundred and eighty-eight thousand nine hundred and sixty-one dollars ($137,288,961) to capital account, and produced such disastrous results to the shareholders and creditors of the Philadelphia and Reading Railroad Company.

That these instances are not exceptional, is shown by the report of Mr. Joseph S. Harris, a mining engineer of large experience in the coal region, selected as appraiser by the receivers, and recognized as the highest authority in such matters, upon eighty-one coal properties, acquired by the company at a cost of $47,013,737, and valued by Mr. Gowen in his official statement at

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$75,000,000. After a thorough examination of the several properties, and a careful estimate of their producing capacity, Mr. Harris fixes the value of the companies' interest in them all at $30,630,648. The incumbrances upon the several properties amount to $14,715,058; and he recommends that nine tracts which originally cost $5,207,167, be surrendered, unless the bondholders will consent to a reduction of the obligations given on their purchase.

The aggregate loss to shareholders of the Reading Company from purchases and leases of an improvident character, from working properties so acquired, and from discount on bonds sold, and extra interest and commissions paid in carrying floating indebtedness, can not be accurately ascertained, as it has, directly or indirectly, been capitalized; but it is certainly safe to say, that if ordinary prudence had been used in the purchase of the coal lands really necessary, and ordinary skill had been used in the conduct of the business of the company, it would never have defaulted in its interest. It is hard to form an estimate of how much has been lost in the mismanagement of the routine affairs of the corporation, but attention is called to one significant fact. Since the business of the company has been confined by the receivers in its legitimate channels, and the withdrawal of its funds into outside adventures has been restrained, the increase in revenue is very marked, and shows that the small net earnings of the past five years, do not in any way represent the earning power of the property. The operation of a railroad by receivers, has never been looked upon as the most economical method, or calculated to produce the best possible results for shareholders, and yet the following comparison is striking.

During the four years from 1876–1879 the revenues of the two companies were $12,708,602 less than its fixed charges for rentals, interest, and sinking funds—an average yearly deficit of $3,177,150. For the fiscal year ending November 30th, 1880, during six months of which the property was in the charge of the receivers, this annual deficit was reduced to $2,047,094; and this was the first time in six years that the working expenses of the Coal and Iron Company had not been in excess of its gross revenue.

During ten months of the current year, there has been an increase of $1,070,983 in net earnings over those of the preceding year.

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This increase is to be accounted for, in part, by the improvement of the general business of the country, but in part also it is due to the conservative and prudent management of Receivers Lewis and Caldwell, who have remained in charge of the property while Mr. Gowen has made three trips to Europe, taking him away from his duties for six out of the last ten months.

It is believed that like net gains in revenue can be continued, and perhaps increased, if the property of the company can be restored to the custody of its proper officers under the operation of the plan proposed by the present management, and that the economies in administration following such restoration, will result in raising the credit of the company to its former high position, and in placing it again upon a dividend-paying basis.

There is another matter to which the attention of the shareholders should be directed. The extravagance of the late management in certain directions, stands in marked contrast to their parsimony in operation, and failure to maintain the property of the company, up to the standard and requirements of first-class roads. Their entire disregard of the comfort and convenience of passengers has been the subject of great and general complaint, and has resulted in a most unfortunate conclusion in the section of country penetrated by the Germantown and Norristown branch. The residents of these suburbs, after years of unredressed complaint, have induced a rival railroad company to consider the construction of a road to Chestnut Hill, Conshohocken, and Norristown, which, if carried through, will prove a very dangerous competitor in a section of country hitherto regarded as the peculiar domain of the Reading Railroad.

Coal Tonnage.

In Mr. Gowen's published statement and plan of financial reorganization, issued December 6th, 1880, he says:—

"When I became president of the company, nearly twelve years ago, I came to the conclusion *that its only weakness was its inability to control its coal tonnage, and I advocated and secured the purchase of the coal lands.* I said then, as I believe now, that the true policy of the company was to purchase the lands, and secure proper connections and terminal facilities at tide-water."

He therefore assumes the entire responsibility for the large increase of capital, and for the manner of its increase.

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A comparison of the coal tonnage of the company, and of the total output of anthracite coal for 1869 with 1879, will exhibit the practical result of the departure, inaugurated by Mr. Gowen, from the former policy of the company.

The total output of anthracite coal from the Schuylkill, Lehigh, and Wyoming coal-fields,

For 1869 was	13,723,030 tons
For 1879 it was	26,142,689 tons
An increase of $90\frac{5}{10}$ per cent. or	12,419,659 tons

From the Schuylkill coal-fields, where the tonnage is almost entirely controlled by the Reading Company, the output was 5,725,135 tons in 1869, against 8,960,329 tons in 1879, an increase of but 3,235,194 tons, or $56\frac{5}{10}$ per cent., as a result of Mr. Gowen's policy to control tonnage by the purchase of coal lands.

The Lehigh district shows an increase for the same period of 2,666,044 tons, or $138\frac{17}{100}$ per cent.; and the Wyoming district gained 6,517,927 tons, or $107\frac{4}{10}$ per cent. for the same period.

A comparison of shipments to tide-water, which covers competitive coal, as distinct from coal shipped to local points on line of road, shows that there was shipped—

From Richmond, in 1869	2,362,972 tons
And from Richmond, Elizabeth, South Amboy, and Port Johnston, in 1879	2,772,931 tons
A gain of but	409,959 tons

in competitive coal shipped, as the result of expenditures aggregating $137,288,961, added to capital accounts during ten years. The shipments from the company's coal wharves at Richmond, where most of its competitive coal is handled, was but 2,547,817 tons, which is but 184,845 tons in excess of shipments in 1869, ten years before.

With such a record after ten years' trial, Mr. Gowen said, in his recent London speech :—

> "I want a fair trial of my plan of an American railroad company which owns its own traffic, is not dependent upon the public, and *which is absolutely free from the danger of rival roads.*"

Other facts could be given, but enough has been said to disclose the manner in which the affairs of the company have been managed since 1869.

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But it is not sufficient to point out instances of past mismanagement. The interesting question is, by what means can the affairs of the company be put upon a sound basis.

Deferred Income Bonds.

Mr. Gowen's plan of relieving the company from its embarrassments is what is known as the "Deferred Income Bond Scheme." As to this plan it is enough to say, that it has been submitted to the United States Circuit Court, and declared illegal.

It has been suggested by Mr. Gowen that by making the bond payable at some definite time, the legal difficulty could be removed. If such new form of bond were to be issued, it would be most unjust to the many shareholders of the company who refused their subscriptions to the deferred bonds, in the belief that they were illegal, to permit the subscribers to the original scheme,—who made their subscriptions with a full knowledge that the issue of the bonds was to be contested on the ground of illegality—to obtain a modified, and to the subscribers much more valuable obligation. It is to be noticed that by the modifications proposed, an obligation will be placed upon the company to pay $34,300,000 at some definite period in return for the $10,290,000, received by the company; and the liability to pay this sum in case of future financial disaster, would be an obligation which would take precedence of the stock.

In refutation of the claim that any considerable body of the shareholders were original subscribers to the deferred bonds, it should be said, that in the allotment made at London, $15,493,800 of the deferred bonds were allotted to 1581 persons claiming to be stockholders on the foreign list, with an alleged holding of 309,876 shares. An examination of the stock registry shows that of the 1581 alleged stockholders, but 355 appeared upon the registry, and their entire registered holding was but 51,090 shares.

The methods pursued by Mr. Gowen in regard to the subscriptions to the deferred bond scheme, have been the subject of so much discussion in the public prints, that stockholders have become familiar with them. It is, however, proper to say, that when the new management came into power, an effort was made to ascertain the exact status of Mr. Gowen's negotiations, but no original papers or correspondence were discovered in the Philadelphia office of the company relating to them. There were to be found

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no letters or cablegrams, no original or authenticated copies of the subscription lists, nothing showing how and to whom allotments were made, no list of payments by allottees of the first installment due in January last, when allotment letters were issued, no copy of the allotment letters, or list of parties in whose names they were issued. Not even a copy showing the form of scrip obligations, of which several millions in amount had been issued in London in sums of $1000, $500, $100, and $50 in name of the company, with a lithographed signature of D. G. Bruce-Gardyne, as manager of the London agency of the company, was discovered. There was nothing giving information among the records of the corporation, or on the minute-book of the board of managers; nor were there any lists or registry of the numbers of the scrip certificates and amounts so issued. In fact, there were no original records, or authenticated copies, and no correspondence, or copies of correspondence by mail or cable between the managers of the company in Philadelphia and the promoters of the scheme in London, or with Mr. Gowen during the three months he was in London, relating to the issue, or negotiations for the issue, of upwards of $180,000,000 of Philadelphia and Reading Railroad Company obligations. The only explanation given was, that they were all left in London. A formal application to have the documents sent to this country was met by a refusal, until after London brokers, whose interests were diametrically opposed to the company, could be consulted as to how their withdrawal would affect the right to a quotation of the deferred bonds on the London Stock Exchange. I should, however, add that copies of the subscription lists were promised, with such originals as the brokers should decide could be spared from the London office, and a partial examination of the records was permitted to an agent appointed by the president of the company. This was certainly a most irregular method of dealing with so important a transaction.

Subsequently copies of the subscription lists were received, from which the following information was derived:

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Partial List of Subscriptions and Allotments of Deferred Income Bonds to Bondholders in London, January, 1881.

Application Nos.	Allotment Nos.	NAME.	ADDRESS.	Amount applied for in $'s.	Amount allotted in $'s.	Class of Bonds. owned by subscriber.	Am't of Bonds held in £'s upon which subscription is based.
9	1058	Franklin Benjamin Gowen	Mount Airy, Philadelphia, U. S. A*	$5,000,000	1,500,000	Deb. & Inc. Mtge.	3,200
31	1078	Anglo-French Union Bank, Limited	43 New Broad street, E. C*	10,000,000	500,000	.....	.....
33	1080	Edward Alexander Prentice	32 York street, Portman square, W*	500 000	150,000	General Mtge.	.....
92	1169	Thomas Powell Fowler	Per James McHenry, New York*	500,000	100,000	"	.....
93	1170	James A. Reilly	" " " *	500,000	100,000	"	....
94	1171	M. Vautrain	Per James McHenry, Quai Bourbon, Paris*	1,000,000	500,000	"	4,000
95	1312	Edward McDermott	Grove Park, Camberwell	2,000,000	225,000	"	5,000
96	1313	James McHenry	Addison road, Kensington, W*	10,000,000	4,000,000	"	5,000
100	1177	John Taylor & Co	5 Tokenhouse Yard, E. C	250,000	150,000	Deferred Scrip.	11,000
119	1311	Leonard John Woodman	8 Draper's Gardens, E. C*	500,000	375,000	General Mtge.	1,000
120	1198	G. N. Sedgwick	Ivy House, West Ham*	500,000	100,000	"	400
126	1204	Satt-rthwaite & Co	6 Austin Friars, E. C	50,000	50,000	Imprv. Mtge.	3,000
127	1205	Puleston, Brown & Co	2 Bank Buildings, Princes street, E. C	2,000,000	550,000	General Mtge.	37,500
129	1207	William Abbott	10 Tokenhouse Yard, E. C	5 000,000	500,000	"	200,000
130	1208	William Upward	15 Throgmorton street, E. C	1,000,000	200,000	"	4,000
131	1209	Henry Spicer	23 Albemarle street, W	1,000,000	150,000	"	20,000
135	1289	George Charles Frames	55 Belsize Parke, N. W*	100,000	30,000	"	1,000
186	1290	Alexander McEwen	18 Queen Anne's Gate, Westminster	1,000,000	500,000	"	30,000
197	1245	Albert Bierstadt	Brevoort House, New York*	150,000	100,000	"	1,000
198	1246	Louis J. Jennings	The Manor House, Kingston, Lewis Sussex*	140,000	100,000	"	1,000
238	1284	D. G. Bruce-Gardyne	60 Bishopsgate street, W	300,000	100,000	General Mtge.	200
				$41,490,000	$ 9,980,000		

* Indicates twelve delinquent subscribers for $28,890,000, who have failed to pay $453,300, the first installment of six per cent. ($3 per bond) due on $7,555,000 of bonds allotted in January last, as required by the terms of the subscription.

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On the 11th of January, 1881, Mr. Gowen telegraphed from London, "*London subscription over fifty millions at four o'clock. Io triumphe.*"

Of the subscribers to this fifty millions, the Anglo-French Union Bank, which shortly afterwards suspended, James McHenry, who stands before an English court as an uncertified bankrupt, and Franklin B. Gowen, of Mount Airy, Philadelphia, U. S. A., subscribed for twenty-five millions of the thirty-four millions offered. They have never paid one dollar of the first installment of $360,000, which, according to the terms of the subscriptions, was due last January upon the six millions allotted to them.

It should not be forgotten that, when inquiry was made as to the deposit of the guarantee fund of $2,058,000 required by the United States Circuit Court as a condition precedent to placing the deferred income bonds upon the market, Mr. Gowen cabled thus in January, 1881:—"*Deposit money in my control, as provided by following agreement of good banking house, thus made personally liable beyond deposit; names must not be known at present.*" The "good banking house" referred to, and whose name was suppressed, was the Anglo-French Union Bank, Limited. It was from this same corporation that Mr. Gowen accepted "a letter of credit on Paris for the sum of ten millions two hundred and ninety thousand francs," as satisfying the provisions of the order of the United States Circuit Court requiring "a guarantee of the proposed subscription and issue of deferred income bonds."

Was it in regard to the now suspended Anglo-French Union Bank that Mr. Gowen in his speech in London on the 23rd of December, 1880, used this language "I tell you that the success of the scheme can be guaranteed; that you need have no fear on that score, none whatever. *I tell you further, that the people who have offered to guarantee it are beyond doubt both as to their means and as to their character?*" If he did refer to the Anglo-French Union Bank in this extract, why was he so careless in his inquiries as to its capital and credit, or so credulous as to believe that a bank which so soon closed its doors was beyond doubt as to means and character? If he did not refer to that bank, why did he accept its letter of credit rather than the guarantee of "the people," who were "beyond doubt both as to their means and as to their character"?

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It might interest shareholders to know why, if the subscriptions were all *bona fide*, as is so persistently claimed, it was necesary for the Reading Company to go through the form of offering the bonds by public subscription, when six of the original promoters, the Anglo-French Union Bank, James McHenry, for himself and friends, Franklin B. Gowen, Alexander McEwen, William Abbott, and Pulesston, Brown & Co. were so desirous of taking them, that they subscribed for $35,000,000, or more than the whole issue; or why it was that in making the allotments, the Anglo-French Union Bank, Limited, that subscribed for $10,000,000, were awarded but five per cent., or $500,000, of bonds, when James McHenry, on a like subscription for $10,000,000, was awarded forty per cent., or $4,000,000, of bonds. Was Mr. McHenry considered as having eight times the responsibility of the bank whose guarantee for two millions Mr. Gowen had accepted? Why was it that Franklin B. Gowen, of Mount Airy, Philadelphia, U. S. A., on a subscription for $5,000,000, was allotted thirty per cent., or $1,500,000, of bonds, when Mr. William Abbott, broker, on a like subscription of $5,000,000, was permitted to have but $500,000? Was it because of Mr. Gowen's greater responsibility? Any one need but look at the list of original subscriptions and the amounts allotted to certain well-known names, to be satisfied that it was a stock-jobbing operation on the part of some of the original promoters, whose enormous subscriptions were intended to deceive the public, and who were willing that $1,800,000 should be paid into Glyn, Mills, Currie & Co., according to the terms of the prospectus, by subscribers for three-quarters of the loan, while they held control of one-quarter of the amount, under what is practically an unlimited call for nearly $8,000,000 of the bonds, for which they have never paid a single dollar.

After such an exposure, it might have been expected that no attempt would be made to revive the project, but it seems that Mr. Gowen still persists in its advocacy. At a meeting in London during August last, he is reported to have said:

"Now what I desire particularly to call your attention to is this: that, judged by the actual results of the present year, if the plan which I came here to advocate six months ago had been carried out, at the end of this year every stockholder of the company would have received six per cent. dividend on his shares, and every subscriber of the deferred bonds would have received six per cent. on the issue price that he paid for them. The company would have been out of its difficulties; it would have been out of debt."

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This statement is made in face of the fact that the yearly report of the company, for 1880, shows its net earnings (making deductions for profit and loss and equipment expenditures) to have been but $8,418,008,* or, deducting rentals ($3,366,159), $5,051,849, as net earnings for the year.

For ten months of the current year to September 30th, an increase in net revenue is reported of $1,070,983.

The same proportionate increase for two months more would make an increase for the year of $1,285,180. This would give a net revenue for the current year of $9,703,189.

The charges for rentals and guarantees, for interest on all classes of indebtedness, and for sinking funds for the year 1881, can not be less than $11,265,666, which is $1,562,477 in excess of such net revenue. Six per cent. on $34,278,175 of stock is $2,056,690, and six per cent. on $10,000,000, the issue price of deferred bonds, is $600,000. If we add these two sums to the deficit of $1,562,477, we have as a result that the revenues of the company will fall short by the sum of $4,219,167.

Mr. Gowen claims that the $10,000,000 from sale of deferred bonds would have paid the floating indebtedness, and so saved $600,000 per annum. He also claims a reduction of one per cent. on $40,000,000 (from six per cent. to five per cent.) by a sale of $40,000,000 of his proposed $150,000,000 of five per cent. consols, which would be $400,000 more saved, or $1,000,000 in all. Giving his estimate credit for this $1,000,000 (which assumes that a sale of the deferred bonds and consols could have been made as claimed—a very doubtful assumption), and we are still short of Mr. Gowen's predictions $3,219,167 in net results to shareholders.

In the same speech, while commenting upon an unanimous decision of the Circuit Court of the United States for the Eastern District of Pennsylvania, declaring the proposed issue of deferred income bonds, and of five per cent. consolidated mortgage bonds, to be illegal, Mr. Gowen says:—

"Now that can not be law. It is not common sense, and what is not common sense is not law."

* Previous to 1880, it had been the custom of the company, in making its reports, to include rentals as part of the cost of operation, reporting the balance as net earnings in its revenue statements. For 1880, and since then, this system was changed, and in order to understand the apparently large increase now reported as net earnings, very noticeable to those who have kept the run of previous reports, this change in method of stating the account should be borne in mind.

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Again he says:—

"I will stake my reputation as a lawyer that such is not the law, and I have yet to learn of *any lawyer of eminence in America who values his reputation in the profession, who would sign his name to an opinion that a corporation can not issue a perpetual obligation.*"

Again he says:—

"*It can not be law,* and for these reasons, gentlemen, which I have named, which address themselves to the business intelligence of business men—for these reasons alone, I assert that whether it will be within three months or three years, *the deferred bond scheme will be decided to be legal,* and will be finally and completely carried out, and the company will get the benefit of it."

Again he says:—

"We had to meet the reasons set out in the bill and petition and arguments; but *when the case came to be decided after the argument, which was addressed entirely to subjects different from that upon which the case was decided,* when the case came to be decided, it was, to the amazement, I may say, of the whole bar of America, decided adversely to us, for the legal reason that the company had no right to issue a perpetual obligation."

This is strange language to be used by one of the legal profession. It is stranger still to be used by one of the receivers of the Philadelphia and Reading Railroad Company, appointed by the very court whose decisions he so contemptuously arraigns.

The judges who decided the matter are known to be lawyers of eminence, and they presumably value their reputation. They both delivered opinions, to which their names were attached, that the Reading corporation could not lawfully issue a perpetual obligation.

The statement that the point upon which the case was decided was not raised on the argument is disproved by the facts, that it was set out in the bill of the Messrs. McCalmonts as a specific objection to the scheme, in two distinct paragraphs; that counsel on both sides fully discussed the question, when the case was first argued; that to use the language of the court: "It was heard very fully during a period of four days, * * * every counsel who got upon his feet, was asked to state his views upon that proposition;" and that Mr. Gowen's counsel was afterwards reheard upon the question of the legality of a perpetual obligation, the day before the decision was announced.

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Again in a despatch from London, in September, 1881, Mr. Gowen said:

"If Bond and colleagues will resign and reinstate old management, and advise me by cable of change, F. B. Gowen can before sailing, Saturday, procure sufficient advances against *proceeds deferred income bonds and new five per cent. consols*, to pay floating debt, receivers' certificates, and all arrears of interest. Publish this."

That this was an empty boast, and that at the time it was written Mr. Gowen knew that it could not be accepted, will be apparent when the following orders of the United States Court (of which he had knowledge, and which he knew were in full force and unrevoked) are read:

"And now, on this twenty-third day of April, 1881, the motion for an injunction until final hearing, on further order of the court, having been argued by counsel and considered by the court, it is ordered, adjudged, and decreed, that until the final hearing of this cause, or until the further order of the court, the defendant corporation and the other defendants, and each of them, be and they hereby are enjoined:—

"*First.*—From making or issuing the deferred income bonds mentioned in the bill filed, and the exhibits thereto annexed, in this cause, or any of them, and from making any contract on behalf of the corporation defendant in reference thereto, and from doing any act toward carrying out the plan set forth and described in the bill filed in this cause, and the exhibits annexed thereto, and known as the deferred income bond plan."

"And now on this twenty-seventh day of April, 1881, it is ordered, adjudged, and decreed that until the final hearing of the cause, or until the further order of the court, the defendant corporation and the other defendants, and each of them, be and they hereby are enjoined from executing a mortgage upon the property of the company for $150,000,000, as mentioned in the bill, and from issuing any bonds or obligations secured by such mortgage upon the property of the company, and from doing any act toward the carrying out the scheme of issuing the bonds or obligations, as a part of an issue or issues, amounting in the aggregate to $150,000,000, to be secured by a new mortgage, as set forth and described in the bill and the exhibits annexed thereto."

Plan of Present Board.

A plan of extricating the company from its difficulties has been prepared, after the most careful investigation into the affairs of the company and its prospects, by the present management, which, should they be re-elected in January next, they feel confident can be carried into substantial effect.

In devising this plan, the purpose has been to deal justly with the creditors by securing to all of them a lien upon the net revenues

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of the company, and at the same time prevent the accumulation of an indebtedness by the compounding of interest, which would involve the company in irretrievable ruin.

Mr. Gowen has seen fit to criticise this plan, as devised for the benefit of the bondholders of the company at the expense of the stockholders. That the stockholders may understand the plan, it is proper here to say, that stock is not to be given as a bonus, but is to be used at par to equalize differences in market value of certain classes of indebtedness. For instance, take the six per cent. unsecured debenture bonds, and the seven per cent. unsecured debenture bonds, that have also the privilege of conversion into stock. It is proposed to use new three per cent. bonds secured by a general consolidated mortgage on all the property of the company, in purchasing this unsecured indebtedness, and to equalize the difference in market values, whatever it may be, by the issue of stock at par. In other words, it is proposed to purchase a *six per cent.* unsecured debenture bond, and pay for it with a three per cent. bond, secured under the general consolidated mortgage; and to give a three per cent. general consolidated mortgage bond at a discount, with —— shares of stock at par, for a *seven per cent.* unsecured debenture bond that has the convertible privilege. This will take about $2,100,000 of the $13,000,000 of additional shares that the company has a right to issue, to secure the refunding of nearly $19,000,000 of debenture and other unsecured indebtedness into the new three per cent. bonds. The remainder, after providing for outstanding convertible bonds, will be held in the treasury of the company, and used from time to time, as the interests of the company shall require, in taking up or exchanging for guaranteed obligations or the shares of property leased.

From this statement shareholders will judge how much reliance should be placed on the assertions in Mr. Gowen's circular from London, September 8th, that the plan—

> "Proposes to give to the holders of junior and unsecured obligations not only a new bond of equal amount entitled to six per cent. interest out of earnings before the shareholders receive any dividend beyond one and a-half per cent., but, further, an additional bonus of new shares, equal in the aggregate to over one-third the entire capital of the company, for which the favored bondholders are asked to surrender nothing but the right to receive more than three per cent. in any one year in which it is not earned, a contingency which is not likely to arise in the future."

Junior and unsecured holders are to receive, under the plan, three per cent. cumulative interest-bearing bonds, carrying one and

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a-half per cent. additional interest, if earned; then three per cent. is to be paid on the share capital from net earnings; and after that one and a-half per cent. additional interest, is to go to three per cent. bondholders; bringing their interest up to six per cent. before stockholders shall get more than three per cent. from the dividend fund.

The bonus "of over one-third the entire capital of the company" exists only in Mr. Gowen's imagination.

It can be shown also that Mr. Gowen's criticism of the plan rests upon miscalculations. He can not object to the use of the figures employed by him in endeavoring to convince shareholders of the expediency of the deferred bond issue.

In a circular to the stockholders, issued in February, 1881, he assumes the sum of $11,607,593 as fairly representing the revenues of the two companies, and also assumes that he could convert all existing obligations of the company into $150,000,000 five per cent. consols (a most unlikely thing to be accomplished, at least for many years). He then deducts from the sum of.....$11,607,593

5 per cent. on $150,000,000, as fixed charges.....7,500,000

Leaving.....$4,107,598

which is to be distributed as follows:—

7 per cent. on $1,551,800 preferred stock.....	$108,626	
6 " " $32,726,375.....	1,963,582	
6 " " par of deferred income bonds.....	2,058,000	
		4,130,208

Deficiency.....$22,610

The sum of this is, that with revenues of $11,607,593 the company would be $22,610 short of earning enough to pay more than six per cent. to its stockholders.

That the stockholders will fare better, if our plan is carried out, even though it may be necessary to use $4,500,000 of stock, will be seen by taking, as a matter of convenience, the same figures assumed by Mr. Gowen as representing the earnings of the two companies..... $11,607,593

Deducting therefrom the amount of fixed charges under the proposed plan..... 8,339,000

Will leave as a dividend fund.....$3,268,593

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	$3,268,593
From this sum, however, must be deducted three per cent. upon $30,000,000, being the additional interest provided for upon these bonds in the event of dividends being earned	900,000
Leaves a balance of	$2,368,593
Deducting from this seven per cent. on $1,551,800 preferred stock	108,626
Will leave as a dividend fund for common stock	$2,259,967
The present amount of common stock is	$32,726,375
The greatest amount there is any probability of using with three per cent. bonds is	4,500,000
This would make the entire common stock	$37,226,375

A six per cent. dividend upon this sum would require $2,233,582.50, and any increase of net revenue would proportionately increase the dividend on these shares beyond six per cent.

Under the deferred bond plan, in order to pay dividends over six per cent. upon the common stock, they must be earned upon a nominal capital of $68,576,350, that is, the present amount of stock and a similar amount of deferred income bonds.

This sufficiently refutes the statement so persistently made, that there is to be a watering of stock under the plan proposed by the present management.

In a cablegram from Interlaken, dated August 29th, 1881, Mr. Gowen refers to the plan of the present management in the following manner:—

"The scheme is absolutely illegal, and an outrage upon other shareholders, whose ownership of their property is to be cut down for the purpose of increasing the McCalmont's proprietorship by giving them a large bonus of shares on account of their four millions of convertible bonds and scrip. It is a transparent attempt to create an illegal issue of shares, not only to share in future earnings, but to give McCalmonts additional voting power at the next election."

Of this criticism upon the legality of the scheme, it is enough to say that Mr. Gowen and the courts are not generally in accord upon the question of what are the corporate powers of the Philadelphia and Reading Railroad Company.

His charge that the plan is a scheme to benefit Messrs. McCalmont Brothers & Co. at the expense of other shareholders is palpably absurd, when figures and facts are considered. Even if all

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of the $13,000,000 of stock were issued, Messrs. McCalmont Brothers & Co., as bondholders, would only receive as their proportion of the new issue, $600,000, while in their capacity of shareholders, owning twenty-seven per cent. of the shares of the company, their proportion of the assessment would be over $3,500,000. These figures are a sufficient answer to the charge made upon this score.

This comparison of the financial expediency of the plans proposed by the old, and by the present management of the company, is submitted for the information of stockholders, who are earnestly requested to consider, whether the experience of the last twelve years is such as to entitle those, who during that period were entrusted with the direction of the company's affairs, to ask that they be reinstated in control.

It should be added, that the present management invite criticism of the plan proposed by them, and they are willing to consider such suggestions or modifications as shall appear expedient and proper, and shall tend to make it more perfect. They think the essential features of the plan are based on equity and justice, and must be adopted, and that any plan that does not bring the fixed charges within the limit of the earning capacity of the company, will surely fail to give permanent relief. They have put it forward in its present form, believing that it will meet the exigencies of the situation.

Mr. Gowen's Second Circular.

Since the foregoing was written Mr. Gowen has issued a second circular, announcing himself as a candidate for president of the company, and asking shareholders to send him their proxies. He reasserts, in part, the inaccurate statement he made at the recent London meeting, that if his deferred bond scheme had been carried out, a dividend of six per cent. on the common shares would have been earned in the current year. At the London meeting his statement was, that in addition to six per cent. on the share capital, "Every subscriber to the deferred bonds would have received six per cent. on the issue price that he paid for them," which is $600,000 better than his last promise. The figures on page 30 of this pamphlet will show how impossible it is that either statement can be true.

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The circular contains the usual wild promises for the future that are found in his annual reports, some of which are referred to in this pamphlet; and the usual disingenuous statements are made in respect to the present management, and as to the plan of reorganization they have submitted. It also contains a disingenuous and disrespectful allusion to four judges—a majority of the Supreme Court of Pennsylvania—because they had affirmed an unanimous opinion of three judges of the Court of Common Pleas, No. 2, delivered by Judge Hare, declaring the president and board of managers to have been legally elected on the 14th of last March.

Proxies.

His call for proxies clearly indicates that he has little expectation of having a majority of legal votes—three months' registration and ownership—at the coming election. His policy and plan of operation is apparently foreshadowed as similar to that of last year—to obtain as many proxies on borrowed shares as possible, and claim them as representing a real ownership.

Although the transfer books are kept open until the day of the election, in calling for proxies the circular reads as follows:—

"Although opposition may be made to the votes of any but registered shareholders, *I am desirous of having the proxies of every shareholder, whether registered or not*, and I therefore enclose two forms of proxies, one for shareholders whose certificates are in their own name, and *the other for those who hold certificates made out in other names.*"

It will be very easy for Mr. Gowen in this way to obtain proxies for almost any amount of borrowed shares, as was done last year; and in this way only, can he sustain the statements so persistently made as to the amount of stock he represents.

On the 14th of March, 1881, the date of the last election, Mr. Gowen addressed the following letter to George M. Dallas, Esq., chairman of the election meeting:—

"Dear Sir:—I have in my possession, up to this morning, proxies of 1988 shareholders, representing 372,853 shares of the Philadelphia and Reading Railroad Company, constituting a clear majority of the *bona fide* holders of said company."

This list of proxies was subsequently filed in the Court of Common Pleas, No. 2. It apparently showed 1956 shareholders, with holdings of but 347,796 shares, which is a shrinkage of 25,057 shares from the statement in his letter to Mr. Dallas.

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Extraordinary efforts were made by Mr. Gowen previous to the last election, to register every share that he could control, and the stock books of the company, then in his charge, were kept open until the very hour of the election on the 14th of March. On comparing the names on the list of proxies filed, with the official list of shareholders used at the eleetion, we find that 598 names, with alleged holdings of 139,888 shares, do not appear at all upon the registry, all of which was undoubtedly borrowed stock, or stock that the parties could not control long enough to have it transferred into their own names. The actual registered holdings of the list were 207,903 shares, less 39,542 that had been transferred. This shows that had every registered share held by Mr. Gowen been voted at the last election, including 103,109 shares in brokers' names, that were subject to challenge, Mr. Gowen would have been defeated by more than 40,000 shares. As a matter of fact, he had proxies for but 78,717 shares of three months' registration and ownership against 208,225 similar shares voted for the present management. Only such stock was entitled to vote for a president and board of managers under the charter of the company, which provides that:

"No share shall confer the right of suffrage which shall not have been holden three calendar months prior to the day of the election, nor unless it be holden by the person in whose name it appears, absolutely and *bona fide* in his own right, or in that of his wife, or for his or her sole use or benefit, or as executor, administrator, trustee, or guardian, or in the right and for the use and benefit of some co-partnership, corporation, or society of which he or she may be a member, and not in trust for and to the use and benefit of any other person."

Mr. Gowen's statements as to the proxies he holds, are certainly misleading. In his letter to me, dated June 2d (published with his speech) he says:—

"My right to ask these questions results from the fact that I am the legally authorized proxy and representative of a clear majority of all the shareholders of the company."

In his recent London speech he said:—

"When I last looked over the list of proxies I had two hundred and eighty thousand proxies of registered shares—that is, two hundred and eighty thousand proxies in names of people whose shares were registered in their own names, and who would have a right to vote at the next election under the three months' registration clause."

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I do not know when Mr. Gowen looked over the list, but the stock registry and records are in my keeping, and I know that when he made these statements, it was not possible for him to have had proxies for any such number of shares, that were entitled to vote at the last election, or that can be voted at the next election for a president and managers of the company. All that he was able to obtain at the last election, after most extraordinary efforts at speech making and by personal solicitation, was but 78,716 three months' proxies, as he admitted in his Academy of Music speech in Philadelphia; and not one of these proxies can be used at the next election, as the law requires them to be executed within six months of the election day. The statement that he had two hundred and eighty thousand voting proxies, as made, is calculated to deceive the public.

Conclusion.

In conclusion I desire to say, that I regret that I am compelled to make these statements in reference to the former administration of the affairs of the company. Investigation into its past operations was undertaken by the present managers for the sole purpose of obtaining information necessary for its re-organization upon a substantial basis. No attempt was made to obtain material for an attack upon individuals, nor for the purpose of criticising the policy and acts of the former president and managers, either in respect to the acquisition of properties that have not proved profitable to the company, or otherwise. In the statement of August 10th, published with the plan for a reorganization, special pains were taken to divest it of anything like personal criticism—the facts, and only such as were necessary to a complete understanding, being stated without argument.

It was hoped that this policy could have been continued, but it has become necessary that misstatements should be corrected, and the truth made known; and, therefore, this paper is submitted for the information of shareholders and creditors of the Philadelphia and Reading Railroad Company, and of that portion of the public who feel an interest in its affairs.

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The stockholders are asked to weigh these statements with care, and then to decide whether the best interests of the company will be promoted by continuing the present officers of the company for another year, or by restoring the late management to the control of the company.

A form of proxy is enclosed for those who are unable to be present at the election to be held on January 9th, 1882.

FRANK S. BOND,
President Philadelphia and Reading R. R. Co.

PHILADELPHIA, PA., October, 1881.

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41.

MR. GOWEN'S DEFENCE.

SPEECHES

OF

MR. FRANKLIN B. GOWEN,

(EX-PRESIDENT,)

AND OTHERS,

CONCERNING

THE PHILADELPHIA AND READING RAILROAD COMPANY;

DELIVERED AT A

PUBLIC MEETING HELD BY MR. GOWEN

AT THE CANNON STREET HOTEL, LONDON,

ON THURSDAY, THE 10TH OF NOVEMBER, 1881.

PREFACE, COMMENTARY AND NOTES,

BY

MESSRS. McCALMONT BROTHERS & CO.,

LONDON.

LONDON.

24th November, 1881.

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Mr. F. B. Gowan, President of the Philadelphia and Reading Railroad Company, before taking his departure for Europe on the 4th inst., issued an address to the stockholders of his Company in which he recites the history of his scheme for funding the bonded debt of the Company into securities bearing a lower rate of interest, and paying off its floating debt, which is now being carried into effect, and predicts that it will produce most favorable results. He had fully matured his plan in December, 1880, and a month later had successfully placed the entire issue of deferred income bonds, and was about to sell $40,000,000 5 per cent consols, the proceeds of which would have met all maturing obligations and left a surplus of several millions of dollars in the treasury of the Company for the purchase of six and seven per cent bonds, when he was interrupted by an injunction issued by the United States Circuit Court at the suit of the McCalmonts, which prevented all further action.

Am. R. R. Journal Feb 1881

The legal obstacles to the consummation of the scheme having now been removed, the unpaid installments on the deferred income bonds (some $8,000,000) have been called in, and it is proposed to sell $40,000,000 of the consols immediately. The funded debt of the companies (the Reading Railroad and the Reading Coal and Iron Company) now is $94,177,194. Other obligations on account of leased lines and debts upon which interest is paid run the total up $151,509,449, upon which the fixed interest charge is $9,200,000. The proposed new mortgage will be for $160,000,000, and by retiring the old debt, which the new is intended to supersede, he expects to reduce the interest charge to $8,000,000 per annum. The net earnings last year were over $10,000,000, and Mr. Gowen predicts that before long they will be $12,000,000. This will leave a handsome surplus for dividends. Mr. Gowen earnestly advises all the Reading stockholders to purchase largely of deferred income bonds. He thinks that those who control the management of the Company ought to own its securities.

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PREFACE.

The Speech of Mr. Gowen, which we here publish, and which he delivered as an answer to our Circular of the 31st October, would of itself be sufficient to destroy his reputation as a competent and trustworthy Railroad Manager. It exemplifies the maxim that no man is effectually written down except by himself. It shews in the strongest light his unspeakably bad finance, his incapacity to deal safely with figures, the desperate expedients to which he will resort, his utter want of accuracy, his habit of quarrelling with and abusing his opponents, and his proneness to rely on wild and fantastic estimates.

The edition published by him of the proceedings at the meeting is less full than the one now offered, and we have thought that it would tend to the better understanding of the exposure we make of his fresh budget of fallacies, and would prevent any charge of giving an unfair selection from his and the other Speeches, if we printed the whole of them, even at the cost of thus very largely increasing the apparent length of our reply. The Stockholders, therefore, have the bane and the antidote, Mr. Gowen's inaccuracies and fallacies and our corrections of them, placed side by side, in the most convenient form possible for comparison and judgment. Our additions are conspicuously distinguished, those in the body by being in brackets, and in much larger type, [**of this size,**] those in the notes by having the word "Note" prefixed to them, and by being printed in smaller type (of this size).

Mr. Gowen's meeting was a failure, even as to the number present. He changes his Chairmen, whether from dissatisfaction on their side or his does not appear. Mr. Ayrton, who took the chair in August, is, we believe, a Bondholder. We are not aware that Sir Henry Tyler had any interest at all, and Viscount Bury, the last Chairman, admits he has none. But his meetings draw less and less. The audiences steadily diminish, that at the recent one being smaller than at any before.

No efficient attempt was made to confine the meeting to the classes invited, and there is no practical security that it was not largely composed of persons who came there merely for amusement. It was conducted in the usual one-sided manner. Mr. Gowen complains that we did not attend, but if any justification of our absence were necessary, it would be found in the significant fact that the distribution, on our behalf, of handbills drawing attention to some of the leading points in our Circular, was stopped by one of Mr. Gowen's trusted and zealous partisans, and the men employed for that purpose compelled to leave the building.

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As an answer to our Circular, Mr. Gowen's Speech is an utter failure, (as we predicted,) for there is not a single position we took up that he has successfully attacked.

The following matters he tries to explain, but his explanations make the case against him infinitely worse than it was before:—

1. The guarantee and deposit by the Anglo-French Union Bank Limited. (Our Circular, pp. 7—11.) His present story, (and, marvellous to say, he offers it as a "complete answer,") amounts to this, that when, on the 4th January, he published a Prospectus for an issue of $34,300,000, conspicuously stating "whatever remains unallotted is already agreed to be taken ". . . by a combination of capitalists, who have provided "the guarantee deposit named in the order of the Court;" (*i. e.* $2,058,000;) and when he telegraphed on the same 4th January to his co-Receivers "Contract signed and $2,058,000 deposited as "guarantee by good Bank," **HE HAD GOT NEITHER GUARANTEE NOR DEPOSIT, AND HE DID NOT GET ANYTHING WHICH COULD BE PROFESSED TO REPRESENT EITHER TILL NEXT MORNING**, and, to crown all, he says, "**I NEVER KNEW OR HEARD OF "THE ANGLO-FRENCH BANK TILL I GOT ITS "GUARANTEE!**" (See post, p. 29.) Mr. Gowen charges himself, (though his hallucinations prevent him from seeing it,) with much worse conduct than any we ever thought of suggesting. All we had said or implied was that his statements to the Public and to his co-Receivers rested on merely the engagement of the Anglo-French Union Bank Limited: but he now says, (and even rests his defence upon it,) *that he had not then got even that.* (See post, pp. 29, 30.)
2. The remarkable allotments of the Deferred Bonds which we have cited. (Our Circular, pp. 17, 18). The defence consists of what is, practically, an apology for large subscriptions by "stags," (a word we had neither used nor suggested,) who, according to Mr. Gowen's fantastic theories, are just as good as any other subscribers, if not better. "I propose," he says, "to submit this "fact: *When a loan is at a premium every subscription is good.* ". . . *Is it of any use enquiring into the personal standing "of a man who offers to subscribe and pay you* for an issue to "be made on the Stock Exchange, which you yourself could

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" sell, if he does not take it up, for twice as much as he agreed " to pay for it?" (Post. p. 32.) " *The most conclusive answer,*" he says again, " *to the statement that these were not bonâ fide* " *allotments is that they were not paid for.* . , . Had they " been defaulters, or ' stags ' as you call them here, what would " have happened? What they promised to pay $3 for they " could have sold the same day for $6. Is not that an answer " to the fact that they were not bonâ fide? Did you ever know " of a ' stag ' who could not pay . . . failing to take advan- " tage of a state of circumstances that would enable him to " double his money without the expenditure of a cent of capital? " Every one of them holds them yet?" (Post. p. 35)

The following charges Mr. Gowen admits, and they are enough, by themselves, to take away all credit from every calculation he publishes:—

1. The absurd blunder as to the test-case by which he had tried the soundness of the all-important valuation of Mr. Harris. *But he immediately plunges headlong into the same absurd blunder with a slight alteration of figures.* (Our Circular, pp. 33—36. See post, pp. 12—14.)
2. His enormous exaggeration, in his speech at Philadelphia, of 23rd April, as to the amount of the subscriptions to the Deferred Bonds, *based upon a forgetfulness that his issue of* $34,300,000 *had been made at* 30 *per cent. and not at par.* (Our Circular, p. 16; post, p. 71.)

The following important subjects, (besides other minor ones,) he leaves without the slightest attempt to answer, justify or explain what we had alleged concerning them:—

1. His conversation, about the 1st December, 1880, on the plot he had conceived for throwing over the annual election for 1881, sworn to by the Secretary. (Our Circular, p. 45.)
2. His letters to us, and his telegrams to his fellow-Receivers, (and virtually to the Circuit Court,) on and after the 5th January, all stating or implying that the guarantee deposit of $2,058,000 was actually in his hands; when, according to his present version, all he at any time had was the Anglo-French Union Bank's guarantee and letter of credit, *i.e.*, promise to pay. (Our Circular, pp. 13, 14.)
3. His regular series of estimates and promises in his annual reports throughout his whole tenure of office, punctually falsified by events. (Our Circular, pp. 19—26.)

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4. His pretences concerning the number and holdings of his supporters. (Our Circular, pp. 50—55; see post., p. 56.)

He gives a new estimate, more extravagant and illusory than ever of the revenue which the Company would earn under his policy (post p. 67).

Last, that his speech may not be wanting in samples of every one of the improprieties to which he is addicted, he makes a vindictive, unfounded, and inexcusable attack on the personal character of his successor, President Bond, the utter baselessness of which we have exposed as it deserves (see post, pp. 41—45).

The course which the controversy has taken has had the great advantage of forcing Mr. Gowen out of the refuges where it is so difficult to follow him, on to ground where his incompetence and inaccuracy can be made plain to every one. When he talks of the present advantages of the Catawissa Railroad or the Schuylkill Canal, and still more when he expatiates on the future of these and other properties, the evidence to refute him may have to be fetched from afar, and, when it comes, the force of it may be misapprehended: but when he is obliged to defend himself for proceedings in London which can be traced, or for the way in which he describes documents of importance which are published, the Stockholders can easily be put in a position to condemn him, on evidence, close at hand, which admits of no answer or doubt.

We earnestly request the Stockholders to read as much as they can of this publication, and judge for themselves, from Mr. Gowen's own words, whether it is possible to think him a fit candidate for restoration to the Presidency. If they are unable to read the whole, we draw their particular attention to his self-convicting defences concerning the issue of the Deferred Bonds and the guarantee of the Anglo-French Union Bank, (post, pp. 27—37,) and concerning the test-case selected by him from Mr. Harris's Report. (Post, pp. 12—14.)

Those Stockholders who have not already sent in their proxies are earnestly requested to do so without further delay. If any have given proxies to Mr. Gowen, such proxies will be revoked by sending others to us.

McCALMONT BROTHERS & CO.

15, PHILPOT LANE, LONDON, E.C.,
24th November, 1881.

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LL 8.

SPEECHES

OF

MR. FRANKLIN B. GOWEN (EX-PRESIDENT) AND OTHERS.

CONCERNING THE AFFAIRS OF THE

PHILADELPHIA AND READING RAILROAD COMPANY,

DELIVERED AT A PUBLIC MEETING,
HELD AT THE CANNON STREET HOTEL, LONDON,
ON THURSDAY, NOVEMBER 10TH, 1881.

THE RIGHT HONOURABLE VISCOUNT BURY, K.C.M.G., IN THE CHAIR.

[From Shorthand Notes.]

The commentary in this type and the foot notes in small type are added by Messrs. McCalmont Brothers & Co.

The CHAIRMAN: Gentlemen, if it be true, and I have no doubt it is true, that the first requisite in a Chairman is absolute impartiality, I may at least claim that for myself, because I do not hold, and I never have held, a single shilling's worth of interest in any American Railway whatever, either this railway or any other: but I come here to preside over this meeting from private friendship for the gentleman who is going to address you, and for others of his friends. I am told, and this I received merely from others, that attacks have been made of a serious character upon him; and he is anxious to put before you, who no doubt are interested in the Railroad, his own statement of affairs. Under these circumstances the only duty that I have to perform is to occupy the nominal post of Chairman of this meeting, and to introduce to you Mr. Gowen, who will make a statement on the affairs of the Company which he represents. **[It is a mistake to suppose that Mr. Gowen represents the Company.]**

Mr. FRANKLIN B. GOWEN: My Lord and Gentlemen: I once knew an old clergyman in America who, finding his congregation failed to attend regularly at the place of public worship, determined that he would give one more opportunity of having a full meeting: so he brought a suit against each of them for the pew rents, and he had the writs returnable on one day and before a Magistrate, and he said his reason for doing that was because he was determined that they should listen to what he had to say, and that was the only way in which he could collect them together. Now, when this Circular of Messrs. McCalmont Brothers and Company of 68 pages, and which I may call a 68 pounder, was discharged against me about the time I was going to return to America, I had two ways of answering it. I might sit down and pen a reply; but I have never opened this pamphlet without being so angry at the charges it contained, **[a passion**

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which would seem, from his speech, to have affected his reasoning powers,] that I felt sure, if I sat down to write, I should write so much that you would not read it. **[The real meaning of this is, that fallacies concerning intricate accounts are more safely delivered in a speech, as they cannot be analysed on the spot, and the "cheers and laughter" consequent on them can be cited as an important testimonial.]** I knew very well if I called you together, I should be confined to a certain number of minutes, in which I would have to crowd all I had to say: and when I am answering a charge which affects my integrity, and affects my honour, I like to look a man in the face and answer him plainly; and I am sorry that persons who have published this broadside against me, and those who have dared to impugn my motives, and strike down my character, have done it in print, and have not had the courage to look me in the face or give me an opportunity of replying to them. **[There is, on such subjects, no fairer or franker method, and none giving more opportunity to reply, than to publish one's statements, in print, in one's own name.]** This is the fourth or fifth meeting I have held within the last few years in the City of London upon the affairs of this Railway Company; and, for the last year-and-a-half of the struggle, there never has been a time, and there never has been a meeting, at which Messrs. McCalmont Brothers & Company, have dared to meet their Shareholders face to face. **[We decline to recognize as "our Shareholders" Mr. Gowen's miscellaneous assemblages. His pretences concerning their composition are exposed at p. 50 of our circular.]** They have crept in the dark, **[by publishing an unanswerable circular in their own name in the light of day,]** and from their hiding place **[in their well-known office in the City.]** they have made use of and prostituted the press, on both sides of the Atlantic, in making attacks which they had not the courage and the manliness to make face to face with him whom they have attacked: and I can only suppose they did that, because, as the Scripture says, "men love darkness rather than light, "because their deeds are evil." **[This is Mr. Gowen's description of our public address to the Stockholders.]**

Now, Gentlemen, almost simultaneously with the issue of this pamphlet, comes another from across the Atlantic from Mr. Bond, the President of the Railroad Company; a pamphlet which I only received yesterday: **[that address was written, independently of us, by Mr. Bond, and we are informed that a copy has been sent by him by mail direct to every registered Stockholder in this country:]** and I therefore have the opportunity of answering both of them at once: and I shall answer them fully, and I shall answer them effectively. **[Neither fully nor effectively as shown in our remarks.]** I shall divide what I have to say upon the

charges they make under two heads, first, those which affect my relations with the management of the Company before it came to disaster, and, secondly, those which relate to what I have done in the effort to resuscitate the Company from trouble, and, thirdly, I shall reply to some statements made in this pamphlet which do not affect the Company at all, but which affect my character as a gentleman: and I shall ask you, even if it does not affect the Company, to give me your attention for a few moments while I reply to calumnies such as these. **[It will be seen that his "reply" is no reply at all.]**

Now, in the first place I will take up these charges *seriatim*. **[That is, those which he ventures to touch at all.]** The first charges are those which affect my management of the Company; and the first of gravity is, to use Messrs. McCalmont Brothers and Company's own language, on page 20 of their pamphlet; "And, above all, a wild attempt to buy up a monopoly of the coal trade of "Pennsylvania, a policy now seen to be unsound in itself on account of the "unmanageable size and nature of the operation, and carried out in detail with "a reckless disregard of economy and prudence." Now, it is true that the debt assumed by the Company for the purchase of the coal lands is what first brought the Company into trouble. I have admitted that over and over again; and I have said over and over again, and I will say now, that if, instead of making this purchase with debt, we had made it with half share-capital and half debt, we never would have gotten into trouble: **[this is a mere juggle, as shown below in Note 1;]** and I can say here truly and candidly, without any desire to shift the burden from any shoulders but my own, that the question whether it should be debt or whether it should be capital was submitted to Messrs. McCalmont Brothers & Company, and they themselves decided that it should be done with debt, and not with share capital. **[This is a sample of Mr. Gowen's capacity for misrepresentation, see Note 2.]** Now, Gentlemen, the coal lands to-day are the most valuable property of the Railroad. They are worth more than all the Railroad put together. **[Nobody denies that the coal lands are valuable. They have cost over twelve millions sterling, and Mr. Harris values them at more than six. But the real questions, with which all Mr. Gowen's talk has nothing to do, are, how much they are worth, whether they**

NOTE 1.—Whether the capital had been raised by bonds or shares would have made no difference in the profitableness to the Company of the purchase. The means for paying proper interest on the capital would in either case have been absent. Being raised by bonds, the deficiency causes a default, and leads to a receivership. If it could have been raised by shares, the whole loss would have fallen on the Stockholders, the dividends on the then enormously increased share capital being abolished or diminished; a state of things which, in Mr. Gowen's queer vocabulary, is *not* "getting into trouble."

NOTE 2.—We did not "decide" if that means, as it ought, that he put both courses before us to choose. He recommended that the capital should be raised by bonds, and we assented, and we believe that to raise it by an issue of shares would have been impossible.

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have not been bought too dear, and (more important than all) whether their quantity and cost were not entirely beyond the Company's needs and means.] When I became President of this Company, I found a Company with many millions of dollars of indebtedness, and many millions of dollars of engagements, the interest on which could only be met in case they secured for ever the transportation of coal from the lands which their Railway was intended to develope. I found other Companies engaged in buying those lands, and I found other Railway Companies penetrating the regions with their lines, and actually buying the fee simple of the lands for the purpose of diverting them from the Company: and I bought the lands, and they cost us in round numbers $50,000,000, **[they have really cost at a moderate calculation $63,000,000, and probably much more. See our Circular, p. 30;]** and the annual interest on that was equal to the dividend we had previously been paying: **[it was a great deal more: interest at 6 per cent. on $50,000,000 alone would nearly equal the dividend, and there was in addition a devouring expense on their developement and working, which ate into the very vitals of the Company;]** and within one or two years after the completion of that enterprise the crash came in America, which not only affected the Reading Railroad Company, but which affected every other Railroad Company engaged in similar business.

Now, you can hardly understand the nature of these lands. **[Here begins a digression which merely serves to throw dust in the Stockholders' eyes. Mr. Gowen might as well have delivered a lecture on geology.]** They are not ordinary coal lands such as you have in England, and they are not the ordinary coal lands such as there are all over America. It is anthracite coal of a peculiar quality, which exists only in one particular spot in the United States, and, I may say, in the world. There are 450 square miles of it only. There are 192,000 square miles of bituminous coal land in America. There are only 450 square miles of anthracite coal, and we own one-third of the whole area, or about 45 per cent. of the tonnage of this coal against all of the United States. It is nature's coke. It contains from 90 to 92 per cent. of pure carbon. A ton and a quarter in a blast furnace will make a ton of pig iron; and for domestic purposes, on account of its hardness and other valuable qualities, it is wanted, I may say, all over the United States. In St. Louis, 1,500 miles from where this coal is produced, people pay $12 a ton for it, when they can get bituminous coal for $2 a ton. In another place I have known it sold for $14 a ton. It is the coal that is going over the prairies; it is the coal which is being consumed on the Lakes. It is the only great product in America, the tonnage of which is sufficient to fill the waggons and cars of the Trunk Lines as they return to the west empty, after bringing grain east for shipment to Europe. Now there are about 6,000 square miles of coal lands in Great Britain and Wales. The tonnage of those two

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countries in coal has run up to 137,000,000 tons a year, of which 13,000,000 tons are exported and the rest is used in the United Kingdom. Now what would you think of one of your railways here which could present a claim before the public, or before its Shareholders, in this island of Great Britain, that it owned 45 per cent. of all the coal that was in Great Britain? [**That depends on what it gave for it.**] Would you not say there was a great future assured to that Company? [**If the supposed Company had bought coal which the consumption of the whole kingdom could not use up for 200 years, and on terms relatively corresponding to those given by Mr. Gowen, we should say that there would be assured to it a future of great and irretrievable ruin.**] And yet we are able to say in America that of this particular coal, of this valuable deposit, we own 45 per cent. in tons and 33 per cent. in area of all that exists under the canopy of heaven. [**It is this passion for big things—for having, at any price, the largest coal cellar in the world, and the like—which makes Mr. Gowen utterly unfit for a Railroad Manager.**] It is that which has made this property valuable; it is the possession of these lands, the fact that this acreage is secured, the fact that we could look into the future when the dangers that resulted from the over-production of the war were over, and say we had an unlimited supply of tonnage for ever that is safe from the competition of rival roads: it is that fact alone, that for three years, with Hugh McCalmont hanging like a millstone about my neck, [**which millstone was lending him £100,000 at a time to help him through difficulties which he had created. See our Circular p. 26.**] has enabled me to carry $10,000,000 of floating debt without destroying the assets of this Company. [**But with the effect of altogether consuming for a time the net income of the Company; the floating debt, moreover, being itself mainly due, in the origin, to the excessive coal-land purchases.**] It is this property, its value recognised, its future appreciated, which has enabled [**forced**] me to do all this; and if Messrs. McCalmont Brothers & Company had said, "Buy it with share-capital and do not buy "it with debt," [**a misrepresentation we have already exposed**] it would not have imposed one dollar of burden on the treasury of the Company. [**Mr. Gowen "imposes" on his hearers. It would have "imposed" as much as it has "imposed" now; though, as the "imposition" would have been only on the Stockholders, there would have been no default on bonds.**] What has it cost, Gentlemen? We charged interest against it during the period of its purchase and developement for four years, and with that accumulation of interest the lands represent to day on our balance sheet £100 an acre, for lands which contain from 40,000 to 50,000 tons of coal per acre—£100 per acre; [**The mildest**

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construction to be put on this is, that Mr. Gowen does not understand his own balance sheet. They really stand at more, and probably much more, than £130 an acre. See Note 3.] and I will venture to say there is not another coal and railway Company in the United States which has bought anthracite coal, within the period within which I have been engaged in buying this, which has not paid from $1,000 to $1,200 an acre for it. **[This comparison is worthless, even if true, which from the uniform faithlessness of Mr. Gowen's figures, it probably is not. See Note 4.]** This cost us $500 an acre, £100: and now ask yourselves what is the value of coal land in England, where you have 6,000 square miles of it? Is not coal land here worth £800 or £900 or £1,000 an acre? **[He might as well make a comparison with the value of land in Cheapside.]** And what do you think the value would be of 450 square miles located in a country which, possesses 50,000,000 of inhabitants, and whose future in the next generation is almost beyond the reach of the wildest flight of imagination that one can point to as the destiny of the American continent? **[We prefer the welfare of the present generation to these "wild flights of imagination."]** Now my answer to that charge is, that these lands cost us a price at which I could sell them to-morrow. **[Mr. Harris's Report disproves this: but the policy to which Mr. Gowen is sworn is, that not an acre must be sold. See Note 5.]** If they pretend that this Company has been destroyed by the purchase of these lands, I will agree, if Messrs. McCalmont get control of this Railway, to organize a Company to take every acre of this land off the hands of the Reading Railroad; **[Mr. Gowen talks as wildly in one direction as he has acted in another. In p. 29 of our Circular, moderate purchases of coal lands are not objected to. Mr. Bond takes the same view in p. 21 of his address. What we object to is that Mr. Gowen's policy was coal-buying run mad.]** and I will pay them back the cost, principal and interest, **[there is nothing he is afraid to say he will do,]** and the Company which buys this coal will dictate the terms to every Trunk Line in the United States, for it will be the

NOTE 3.—The exact content of the coal lands is 91,149 acres. The items given at p. 30 of our circular, all taken from the Receiver's balance sheet except the last one (which is most likely less than it should be,) show that the cost of the coal lands is $63,000,000. (The chances are that it is more.) That sum would give a cost of £138 an acre, but a reasonable allowance for the value of the timber and surface would bring it down to probably between £130 and £135 an acre.

NOTE 4.—The price per acre alone would not have brought our Company to the ground without the excessive quantity bought. It is Mr. Gowen's pride that no Company in the world ever went such outrageous lengths in its coal purchases as ours.

NOTE 5.—"Nothing would be more detrimental to the best interests of the Company than to "follow his [Mr. Harris's] recommendations to sell off or get rid of a large portion of the estate." (Mr. Gowen's Philadelphia Speech of 23rd April, p. 26.)

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only Company that can fill their cars going back west, which otherwise would have to be carried back empty. **[Mr. Gowen forgets the other two-thirds of the coal lands.]**

ONE OF THE AUDIENCE: At the same time, what is to become of the Railway? **[See post, p. 67.]**

Mr. GOWEN: I beg your pardon: am I interrupting you? When I am through, I will stand up here and answer any question that mortal man dare to ask me. As I came into this door I was handed a printed paper, issued by McCalmont Brothers & Co., dictating the terms of the speech I should make; but I propose to make my speech myself, without interruption by mortal man. **[See Note 6.]**

Now, then, I must admit, in starting upon this criticism, one error. They have found one hole in my armour; **[just over the heart of his arguments, besides a score of others;]** and I must admit I did make a mistake in the speech I made a few months ago. I want to explain, because it is better, when you find you have done wrong, to make a clean breast of it at once and get over it. **[He will be seen, a few lines further on, to plunge again headlong into it.]** Mr. Harris, of whom you have heard a great deal, was employed in making a valuation of the coal lands, and he made that valuation upon an algebraic equation that charged the lands with 8 per cent. compound interest on their cost, and only credited them with 4 per cent. upon their revenues: **[This is a mere caricature of Mr. Harris's calculations. Mr. Gowen should consult a competent actuary as to their meaning:]** and in the course of 50 or 60 years, if you did so, of course you could make the Bank of England worthless upon such a system of calculations as that. Let me ask you for one moment this question. If anybody to-day was to take up the capital of the Bank of England, or the Corporation of London, and all the great guilds which have existed for centuries, and make a calculation charging them 8 per cent. compound interest for 100 years, and credited them with only 4 per cent. on their revenues, the whole blessed thing would not be worth one cent. **[A repetition of the caricature. If the Governors of the Bank of England were smitten with an epidemic delirium, under which they sank its assets in the purchase of property which must lie idle for a century, we think the value of what Mr. Gowen dignifies by the name of "the blessed thing" might be unpleasantly low.]** Now, Mr. Harris made this calculation of the value of coal lands, and in making it he took up one estate, the Schuylkill and Susquehanna property, as containing 41,766 acres, of which 10,500 were coal land with timber upon them, and the other 31,266 were timber land; and I suppose he did not charge the timber land with 8 per cent. compound interest; and he therefore made

NOTE 6.—The printed paper was our modest summary of some of his own statements, which, as he was going to "reply," we suggested he might as well justify. He had the discretion to avoid such dangerous impossibilities.

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the land which contained timber only much more valuable than that which contained timber and coal both: [**Mr. Harris did nothing of the kind. He valued the land possessing timber alone at $8 an acre and land having timber and coal at $16 an acre. We showed this at p. 36 of our Circular, but Mr. Gowen will not see it. He really seems incapable of reading accurately. The truth is that he is beside himself at having such a misrepresentation exposed;**] and in speaking of this at a public meeting at Philadelphia, where I had nothing but the paper before me, and had not then figured it down definitely, [**This is worse and worse. Mr. Gowen had deliberately sworn to the nonsense, four days before his Philadelphia speech, in his affidavit of the 19th April, a thing which he has forgotten; and he does not mean to tell us that he takes an oath with the same levity as he delivers his wild addresses on the stage of the Philadelphia Music Hall, or in an assembly room in Cannon Street. He cannot have taken a solemn oath about a calculation when he had not "figured it down definitely." See Note 7,**] I said that Mr. Harris had made out that the land which contained timber and coal was only worth $8 an acre, whereas the land which contained timber alone, and which was not burdened with a deposit of coal, to its great injury, was worth $13 an acre; and then I ridiculed with some severity a system of calculation which found that a deposit of coal beneath the surface of the land destroyed the value of the timber growing upon the land to the extent of $5 an acre. I was wrong. *Mea culpa; mea culpa; peccavi.* Mr. Clements found out the blunder, and has pointed it out; and I will admit at once that I was wrong. [**Now he goes on sinning again.**] And I must say that I find, *upon the closest calculation* (!), without using decimals, that he [**Mr. Harris,**] valued the coal property at $7·75 an acre, and the timber land at $10·68 an acre. [**Mr. Harris does nothing so silly. He values, by itself, the coal, under and excluding the timber, at 7 dollars 76 cents an acre, and, by itself, the timber, whether over or not over the coal, but in both cases excluding coal, at 8 dollars 12 cents an acre; so that where the timber and coal exist together the value of the land is 15 dollars 87 cents an acre.**] Therefore instead of my being right when I said that he made the presence of coal beneath the surface destroy the value of the timber to the extent of $5 an acre, I was entirely wrong, and he only made it destroy it to the extent of $2·93 an acre. [**Mr. Gowen is entirely wrong again,**

NOTE 7.—The explanation *must* be that Mr. Gowen, then and now, has blindly misunderstood Mr. Harris's calculations; even with our explanation, which ought to have made them plain to an intelligent schoolboy. It is *impossible* he could have sworn what he did, (and which he now admits to be wrong,) if he had understood what he was talking about.

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for Mr. Harris does not make timber destroy value at all, but increase it, as just shown. The new version of the absurdity, like the old one, is in Mr. Gowen's own imagination, and nowhere else. See Note 8.] There are some decimals of a cent, but I will not trouble you with that. Mr. Clements can make a calculation on behalf of Messrs. McCalmont Brothers & Co., and there may be some decimals, but I will not wrangle about that. **[Nor we either. It is useless discussing fine shades of colour with one who will not distinguish red from green.]** That is the only [!] weak spot he has found. That is one of the charges to which I desire to call attention; and I say now here, as I said before, that a man who estimates the value of a property that is to exist for 100 or 150 or 200 years by charging 8 per cent. compound interest upon its cost, and giving credit for 4 per cent. interest upon its revenues, **[caricature of Mr. Harris repeated,]** is guilty of such an absurdity that his statements require no further notice from any man who does not desire to impress upon the community the fact that he is a fit subject for a lunatic

NOTE 8.—At the risk of being tedious we reprint Mr. Harris's figures, for the question, though small in amount, is very serious in this discussion. The price put on this estate is Mr. Gowen's chosen test-case, and what he urges against it is the only *argument* (for assertion and railing are not argument,) that he brought against Mr. Harris's valuation. If that fails, the valuation is left intact; and Mr. Gowen's character for dealing with figures is gone.

Mr. Harris values:—

Timber and surface of the whole 41,766 acres at $8·12 per acre	$339,128
Coal under 10,500 acres (that part which alone has coal) at $7·76 per acre ...	81,416
Total	$420,544

We gave in our Circular the result of Mr. Gowen's former crazy figures. The following is the result of the equally crazy set which he has now invented;

Timber-land without coal, 31,266 acres at $10·68	333,921
Timber-land with and including coal, 10,500 acres at $7·75	81,375
Total	$415,296

This differs from Mr. Harris's value by more than $5000, a difference that has nothing to do with the decimals which make Mr. Gowen so uneasy, but arises from the radical blunders that in the second item there ought to be no mention of timber-land, the price being for the coal only, and in the first item the valuation ought to extend to the whole 41,766 acres, and there should be no mention of coal, while the price ought to be only $8·12 an acre. The price of $10·068, over which Mr. Gowen has stumbled, (not $10·68, as he gives it,) is what would be the average price per acre of the whole estate, coal and timber together, if the actual coal, without any increase in quantity or change in value, were distributed equally all over it. And this is the gentleman who calls himself a man of business. It requires a surgical operation to get correct figures into his head. Let us recommend him never, in any vocation he may follow, to trust himself in figures without getting competent persons to revise his notions for him beforehand. He reminds us of what, we think, Macaulay has somewhere or other said, that the power of speaking has made men Lords of the Treasury who did not know the difference between funded and unfunded debt, and nearly made a Chancellor of the Exchequer of Sheridan, who could hardly do a sum in long division.

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asylum. [A frequent delusion of persons in that unhappy condition is to think all the rest of the world mad. The practical extinction of present value by postponement for about a century of barren years to come, is part of the common knowledge of all who understand such questions. Note 9.] So much [namely, nothing,] for that charge.

The next charge is the fact, from Messrs. McCalmont Brothers & Company's Circular, page 27, that Mr. Bond has discovered that on the books of the Reading Railroad Company there have been carried forward, particularly during the last twelve years, assets which are worthless to the extent of $15,426,030. Now I turn to Mr. Bond's pamphlet, which he issued some months ago, to see where all this was, and find on page 5 of that pamphlet that he simply gives the amount of items which he assessed as worthless, and he does not give one of the items. [But we do—the Schuylkill canal, p. 27 of our Circular—a case upon which Mr. Gowen breaks down a little further on.] How am I to answer such a charge? If I have falsified those books, if I have carried forward assets which are false to the extent of $15,000,000, why not tell me where they are, so that I may question the correctness of his judgment, and, if that will not save him, that I may question the correctness of his integrity? Not one of them is given. Why, Gentlemen, it is simply a question whether Mr. Bond is right, or whether Mr. Bond is wrong, without knowing what those items are.

Now Mr. Bond represents Messrs. McCalmont Brothers & Company. Messrs. McCalmont Brothers & Company's agents are Kidder, Peabody & Company, and the whole party of them profess to believe that the whole thing is worthless. [Neither we nor they profess anything of the kind.] When Messrs. McCalmont Brothers & Company issued their plan [We never issued any. That was for the President to do] for the reorganisation of this Company, they could see nothing but foreclosure or an assessment on its Shareholders. I know as a fact, that at that time, when their agents were applied to in New York to make an advance in money on Reading Railroad shares, they said that they were worthless and they would not give a cent for them. Now, of course, these gentlemen say they are worthless, [Of course we do not. We have advised the Stockholders at p. 60 of our Circular to have confidence in the Company. When it gets clean rid of Mr. Gowen, as we hope it soon will, it will get over

NOTE 9.—Why does not Mr. Gowen consult a competent actuary? There are plenty in Philadelphia and plenty in London. Whether they will confirm Mr. Harris's precise figures we cannot say, but not one will adopt Mr. Gowen's hallucinations. It will, no doubt, surprise him to learn that, reckoning interest at only 5 per cent., the present value of an annuity of £100 a year, to commence 100 years hence, and then to continue for ever, is under £16. With such utter and incurable delusions as Mr. Gowen labours under, there is no wonder that he drove the Company headlong to ruin.

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the effects of his mismanagement. It was a great deal too vigorous to be killed even by eleven years of his ill usage. $15,000,000 will not exhaust its assets,] but the complete and best answer to that is this. If you are right, if there is this loss, if you are going to make an assessment upon the Shareholders, then these shares that are selling at $35 are only worth $10 or $20 **[we differ.]** and I have offered to take them from them at $40, and I will to day within ten days take all McCalmont Brothers & Company's shares, and will give them $35 for them. **[We decline.]** Now, that is the best answer I can make to any charges which go to shew that this property is valueless, that these assets are valueless, and that there is nothing, therefore, which will enable the Company to survive the crisis, unless it is saved by making an assessment on its Shareholders. **[Mr. Gowen makes an indirect assessment on the Stockholders (and none but an indirect one has been thought of,) by his Deferred Bond scheme.]** But, Gentlemen, remember this charge. I have a document in my possession which I think will completely answer this charge. **[Let us see.]** Now remember, I am charged with having kept upon these books assets to the extent of $15,000,000, and the implication is that they ought to have been wiped off every year. In 1876 the Company met with the first reverse. At the election, or preceding the election, of January, 1877, Messrs. McCalmont Brothers & Company collected proxies in England in the name of one of their confidential clerks Mr. H. J. Gardner. They sent Mr. Gardner over to America to examine the books of the Company, to make a full investigation into its affairs, to consult with other persons of eminence in financial life, and to determine from that what course was best to be pursued by the English Shareholders whom they then represented, or professed to represent. Mr. Gardner then came to America. Now I would first like to tell you one thing that occurred when Mr. Gardner was there. He was there for two or three weeks, civil and polite to me; the books were placed at his disposal, everybody connected with the Company was directed to give him every information he wanted. He said but little to me for the first two weeks, because he was engaged in enquiring about the charges that had been made against the Company and against me; and after he had got through with that he came up to me and said, "Well Mr. Gowen, all this "is over now, and I really do want to say that I did hear one charge against your "management of the Company that I thought I ought to investigate, and I was "sent by the man who made it to a certain gentleman in Philadelphia who was a "prominent lawyer, and he said he knew nothing about it, and I should go to "another man, mentioning a very prominent Railroad President in Philadelphia. "Well," he said, "I went to him and he said he never heard it, but if there would "be anybody who would know about this, I should go to a certain gentleman who "was a President of one of the largest banks in Philadelphia," and a gentleman with whom up to that time I had no personal acquaintance whatever. "Well," he

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said, " I went there and I repeated what I had been told, and that gentleman " said to me, 'Did Mr. So and So tell you that about Mr. Gowen.' I said 'Yes,' " and the gentleman said, 'Well, if he did, he is a damned fool.'" He said " That " is the only testimony I have got against you, and the only evidence against you, " and I shall go home and tell everybody that everything is right, and that everybody " looks forward to you to help the thing out of its troubles." Now he did come home after that election. McCalmont Brothers & Company did not vote their proxies, and the American Shareholders elected the old Board. There was no opposition. [**See Note 10.**] Now I propose to read you a circular which McCalmont Brothers & Company issued in February, 1877, and I propose to read it as an answer to the charge that these books are badly kept, [**We do not say they are badly kept, nor does Mr. Bond. See Note 11,**] and contain items which ought not to be there. Messrs. McCalmont Brothers & Company say this, (this was a published Circular :)—[**Nearly five years ago.**]

" 15, Philpot Lane, 15th February, 1877.

" Dear Sir, Our representative, Mr. Gardner, to whom you entrusted your " Philadelphia and Reading Railroad proxy for use at the late Annual " Meeting of the Company, has returned to London, and you will naturally " expect some information as to his action. He found, after close inquiry in " Philadelphia, that *however much the past expansive policy of the Managers might " be questioned,* [**Note this,**] there was a unanimous agreement (confirming our " previous opinion) as to their personal integrity," [**We have never questioned it. Mr. Gowen has proved himself untrustworthy, and has wasted the Company's money by millions, but we have never accused him, or found any ground for accusing him, of putting a dollar of that money improperly in his own pocket.**] " and that *in the present critical position of the Company* it would be very impolitic " to make any change in the management beyond filling the vacancy caused by the " resignation of Mr. Charles E. Smith. This opinion was fully confirmed by the " Shareholders present at the annual meeting, who unanimously adopted the report " lately circulated, and Mr. Gardner therefore refrained from using his proxies,

NOTE 10.—Mr. Gowen exaggerates and colours as usual. Mr. Gardner came to the conclusion that one particular charge was unfounded, and told Mr. Gowen so, but he never gave Mr. Gowen the general certificate of good character, which that gentleman puts into his mouth. As to the voting, we were dissatisfied with Mr. Gowen's policy, but did not see our way *then* to remove him ; and we certainly had not found him out as we have now. We hoped for amendment, but can hope no more.

NOTE 11.—As far as we have any knowledge, the Company's Accountants do their work admirably, and the bookkeeping as bookkeeping is perfect. But whether a certain balance is worth anything and to be retained, or worth nothing and to be written off, is not a question of bookkeeping but of management, and ought to have been, and probably was, decided by Mr. Gowen for the Accountants, who had to do as they were directed.

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"leaving the decision to the American Shareholders, who attended in great "numbers. The Managers offered to our representative every facility for verifying "the statements made in their annual report, and for inquiring into the condition "of the properties and affairs of the Company, and *so far as he was able to test "these points"* [**which no one but Mr. Gowen could suppose Mr. Gardner would pretend to do completely in a few weeks.**] "he has satisfied himself that the Managers have in their annual "report fully and unreservedly exhibited its position. The Railway and "all the property belonging to it, including the mines, plant, workshops, "shipping wharfs, &c., are in a most efficient state." [**we wish they were now,**] "and are managed with the closest economy, and it appears "universally admitted that in regard to the economical mining and carry-"ing of coal the Philadelphia and Reading Railroad stands in a most favourable "position." [**We still think so. But the position has been bought enormously too dear.**] "The books and accounts also appear to be kept "in the most businesslike and clear manner." [**As just said, we still believe they are; but it is manifest trifling to pretend, for example, that whether the assets be worth what they stand at in the books is a question of mere bookkeeping.**]

Now, Gentlemen, I appeal from Philip drunk to Philip sober. I appeal from Messrs. McCalmont Brothers & Company, smarting under the blows I have inflicted upon one of their firm, [**not on one; on all. Our pockets felt the blows severely,**] I appeal from them in that condition of anger to the condition they were in in 1877, when they wrote this Report, that on the examination of their own confidential agent, sent out for that purpose, "the books "and accounts of the Company are kept in the most clear and business-like "manner:" [**and we say so still. We have never complained of the bookkeeping.**] Now when my friend Mr. Gardyne sent to Messrs. McCalmont Brothers & Company for a copy of the Circular the other day, the answer came that they would send a reply later; and when this Circular did come it was sent with a long letter [**equal in length to sixteen lines of this speech**] which they wished I should read to this meeting, so that instead of attending at the meeting and speaking for themselves they always seek to interject something, and make me stand up and read their letters. [**At no fairly-conducted meeting is the reading of such a letter refused.**] I will not trouble you to read this letter, [**which he might almost have read in the time he spent in talking of it,**] but I will publish it. The gist of it is this. They suppose from this request that I am coming to this meeting to claim your suffrages because they supported me, and that they were wrong when they did support me then, that their eyes have been opened, [**very much indeed, and we believe those of the Stockholders also**] and they have received the new dispensation, and have gotten

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some light, and therefore, at this meeting, the Circular is not to be construed into any evidence, circumstantial or direct, that they should support me now. Gentlemen, I do not propose to read this Circular to show that you should support me because Messrs. McCalmont Brothers & Company did, for I really do think that is a reason why you ought not. But I propose to read this Circular simply in answer to the charges they make now, that these books are falsified, [**We never made this charge. We stated on Mr. Bond's authority that over $15,000,000 of balances were retained as good assets which should have been written off as bad. That is a very serious thing; but it is of a different kind from falsifying books:**] and I look them in the face and tell them it is not true, and there is their own word for it. That is why I wanted this circular.

Now, Gentlemen, we find other things charged. It is charged that the management which they have displaced have leased the Schuylkill Canal and have brought great wrong and ruin upon the Company. [**Mr. Gowen is again juggling. We made no such charge, nor anything like it; nor indeed, to the extent to which Mr. Gowen states it, did Mr. Bond. See Note 12.**] Now I ask you, Gentlemen, to listen to what I say about this, as I think this charge is about as infamous as could be brought forward, [**let us see where the "infamy" is**], and I shall show you the figures they have used in making this charge are distorted and changed. It is true that, as I came in at the door a great big paper was thrust into my face, with a further direction from McCalmont & Company how I should make my speech. They had said that the loss on the Schuylkill Canal for the last five years was $456,000, and they now correct that and say it was only, they believe, about $200,000, and I will give them the credit of that late repentance: [**Correction made within a week after our Circular was published, and of our own accord. Note 13.**] If you look at the map *(pointing to it)* you will see Pottsville there, and this is the main railroad from Pottsville to Philadelphia which is 93 miles long, and the Schuylkill Canal goes alongside it. It was made before the railway, and was one of the earliest improvements in America. The Schuylkill Canal at one time was sold for $260 a share for the $50 paid in. The moment the Railroad came to take the business, the Schuylkill Canal fell back; but the Schuylkill Canal,

NOTE 12.—We know of some reasons of policy that have been urged in favour of taking the lease, even at a loss. What we called attention to is the setting upon it in the balance-sheet, on the strength, as we now find, of an entry which Mr. Gowen fails to justify, the value of $1,000,000.

NOTE 13.—The "great big paper" which so alarmed Mr. Gowen was the unoffending handbill we have already mentioned, and in which we took the opportunity of correcting, voluntarily, an accidental error into which we had fallen as to the loss on the Schuylkill canal. We thought it both right and prudent to make the correction, but it does not in the least help Mr. Gowen, nor did the figures, wrong as they were, do him injustice. If it be wrong to value at $1,000,000 a property which produces merely a loss, it is wrong whether the loss be $400,000 or $200,000.

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being a competitor, had always the right to reduce the charges, and you will remember that upon the tonnage of the Reading Railroad to-day on this line of railroad a reduction of 10 cents. per ton in carrying coal, which could be brought about by competition, would come to $800,000 a year. Now the danger of this was seen by my predecessors, and therefore they made an agreement with the Schuylkill Canal. But my predecessors really had no conception of the magnitude of the coal trade in America, and the amount of traffic, and they made this contract with the Schuylkill Canal, which struck me, the moment I became President and looked into the affairs of the Company, as being the most dangerous that could have been made. They agreed that the two Companies should work together harmoniously, and that the rate established by one should be the rate established by the other line. That was all right; but they agreed, in consideration of that, that they would give to the Schuylkill Canal 45 per cent. of the coal tonnage between the months of March and December which came to the Reading Railroad upon the lateral roads, which used to supply the Navigation Company also, and in default of their getting that they would pay them 25 cents a ton. Now at that time the business of the Reading Railroad was two or three millions of tons, the business of the Schuylkill Canal being one million of tons; and I believe one year it was more; I think it got up to 1,200,000, which was about as much as it could do. Therefore I was confronted with an agreement to make a charge upon this Company of 25 cents a ton upon coal on any deficiency of the 45 per cent. of the tonnage carried within this period that the Navigation Company would not get. The tonnage has been 8,000,000 or 8,200,000 tons. If you throw off 1,200,000 for the amount carried in the winter, when the Navigation Company was idle, you will have over 6,000,000 of tons carried between March and December, upon which the Schuylkill Canal Navigation Company would be entitled to 25 cents per ton. The Reading Railroad Company would have had an annual charge upon them, if the agreement had not been cancelled, of at present $600,000, or $700,000 in ten years; and twenty years hence it would have been two or three millions of dollars; and with the approbation of Messrs. McCalmont Brothers & Company, to whom I wrote this, I set myself to work to cancel that agreement and get a lease of this Canal, and we did it. We paid them a very moderate sum. We cancelled the agreement. We got rid of it, and we prevented competition. We prevented this outlay, and, as it is stated, the loss to the Company is only $200,000 or $300,000 a year. But it is not a loss. If we chose to send 1,200,000 tons of coal as we might, we should never have lost a penny. But we can carry it cheaper on the railroad. The cheapest way to move our tonnage is on the Railroad, because it is only a very short distance on the Canal; and for what it would cost to move the tonnage half a mile on the Canal we can do 50 miles on the Railroad: but it is only when the Railroad is full that we propose to take the coal by the canal. We do keep it running, with something like 700,000 or 800,000 tons a year to keep the plant in efficiency

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and the boatmen satisfied; but I prefer to take the coal by railroad. That is the long and the short of it. It is one of the best strokes ever made by the Railroad; and by it the Railroad Company has saved hundreds of thousands of dollars a year: and because there is a nominal [No, very real] loss on the working of the canal, which we could wipe out in a moment if we pleased by giving it more tonnage [No; Mr. Gowen has already said it is cheaper to send the coal by rail; he would aggravate the loss if he threw the traffic on the Canal] they say that is one of the evils of my management. [All this has nothing to do with the question, whether it was right to value this worse than unproductive asset at $1,000,000 in the balance sheet. Our circular does not blame the lease, as a matter of policy, though we think the rent is too much.]

But there is something worse than this, Gentlemen. [He approaches at last the real question.] When we took the canal, the Canal Company, in order to pay its floating debt, was about issuing a new loan of $1,200,000, and we guaranteed the payment of the principal debt. It became necessary that we should put it upon the balance sheet. It was a loan for $1,200,000, which we guaranteed to pay ten or twenty years hence, and we put that on the balance sheet on one side, and on the other side of the balance sheet we put the $1,000,000 *as representing the value of the property after paying the* $1,200,000; [it would then still have no value;] in other words, we wiped off an amount of $200,000 at once, and capitalised that property at 7 per cent. interest, instead of 5 or 6 per cent. Now Messrs. McCalmont Brothers & Company and Mr. Bond have picked out this charge of the $1,000,000 on the balance sheet of the Company as if it had been put there to swell the profits of the Company, and they say nothing about the fact that we put $1,200,000 on the other side of the balance sheet. [We leave the Stockholders to consider whether this is any answer to all. The facts are given in Note 14.] I am charged with putting a fictitious entry there to swell the profits of the Company by $1,000,000, when they omit all notice of the fact that on the other side

NOTE 14. The case is simply this. The business of the Canal Company (including that of the Schuylkill Transportation Company) results, on an average of recent years, after deducting the rent, in an annual loss of about (in round numbers) $200,000. The annual interest on the $1,200,000 of bonds amounts to $72,000, and is practically part of the rent, being deducted from it. Whether the loan subsist or be paid off, even if it were paid off for the benefit of the Railroad Company, without cost to it, the lease of the Canal would still be for all practical purposes a net liability, and not an asset at all, for after deducting the $72,000, there would still be an annual loss of (on an average) somewhere about $128,000. The $1,200,000 liability is very real, but the supposed value, to arise when the loan in question is paid off, is, and must remain, altogether imaginary. Throughout this note we have used round figures for convenience, but the difference between them and the real ones does not affect the reasoning.

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there is a charge of $1,200,000, and the result of the transaction was that it wiped off $200,000 without adding a cent. [**This is losing sight of the question. The $1,200,000 is a real and practical liability, while the $1,000,000 represents something which, even when the $1,200,000 is paid off, will be really worth nothing. We think most people would read the item in the balance sheet and the journal entry on which it was founded, as meaning that the Canal was a valuable asset, though encumbered by the $1,200,000. If the $1,000,000 were intended to be a mere book-keeping item, having no real value, should not that have been stated ?**]

Now, further, they charge me with extravagance in building a shipyard. [**No, with wasting £200,000 on a shipyard not used, nor, as would seem from Mr. Gowen, fit to use.**] Why, a shipyard was as necessary to the Company as a locomotive yard. We have thirteen iron steam ships. We export from the Port of Philadelphia 2,700,000 tons of coal in the year. The *whole* trouble of the Company has been that *occasionally* it could not get shipping, and we have had to build iron steamships because we could not depend upon sailing vessels, and there are no coasting steamers that will answer our purpose. *I built the shipyard some years ago, and unfortunately we had not sufficient money to start it, and that is my only regret.* [**So that the £200,000 has been wasted in not supplying an absolute necessity.**] We built it that we might be relieved of the cost of paying expenses for repairing our own fleet, and we *expected* to build from time to time new vessels as they were required, so as to utilise the yards when they were not required for repairing purposes. They say that was wrong. [**At any rate it was wrong, if he had not means to finish it.**] That is a matter of judgment. [**Say, certainty.**] I say that it was right, but that is also a matter of judgment. [**Say, imprudence.**] I do not profess to criticise them for taking exception to that simple matter of judgment. [**But we criticise him for being simple enough to go wrong on it.**] But they say that the shipyard cost $1,038,025, and with interest added it was $1,600,000, whereas, Gentlemen, the truth is that it cost $575,810. How they get the $1,038,000 I cannot for the life of me conceive, unless it is that they take into calculation the value of the real estate upon which the ship yard was built. [**Of course we do: as Mr. Gowen might have seen expressly stated at p. 14 of Mr. Bond's address. The land cost $462,216.**] But the real estate belonged to the Company, and it was not bought for the purpose of a ship yard. It was simply utilizing [?] the property of the Company for a ship yard, and the Company would have had that real estate whether the ship yard had been built or not. [**No: it might have been "utilized," in earnest, some other way, or, if abso-**

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lutely useless, sold.] It is part of the great depôt of the Company in Philadelphia, where its wharfs abut upon the river with a frontage of 5,800 feet in length. And they figure all this up to show how grievously I have mismanaged this Company. **[Judging by this sample, he has.]**

Gentlemen, we are now come to another charge. I will run through these as rapidly as I can, but I must reply to them, because if I do not reply to the smallest thing **[and he has left most important things without reply]** Mr. Clements and Mr. Powell will write something or another for Messrs. McCalmont & Company to sign, and they will say, "It must be true "because Mr. Gowen has not replied to it." Now, Gentlemen, here I am charged, as McCalmont Brothers & Company say, with paying dividends when the condition of the books did not justify them. That is said by innuendo, but innuendo is worse than an absolute charge. **[Misrepresentations "continued and multiplied." It will be seen, on referring to p. 22 of our circular, that we carefully guarded ourselves against making this charge. Mr. Gowen has enough to answer for without it.]** Gentlemen, who got these dividends? Messrs. McCalmont Brothers & Company. And so, in humble abasement and in penitential attitude at the magnitude of their own crime, they come to offer me up as a vicarious sacrifice for their own iniquity, and they put their hands in their pockets and keep all the money there. Why, in the name of Heaven, if it was wrong to make those dividends do not they restore the stolen goods? I got none of it. God knows I got none of it. My hands are clean; morally I mean, because physically, in this atmosphere of London, I cannot say so much for them. My hands morally are clean. There has never been a dividend declared about which there could be the slightest dispute, and which was not ratified and approved by Messrs. McCalmont Brothers & Company before it was declared. They took the dividend like mother's milk. They did not resist it, and I want them, if it was wrong, to restore the goods. **[As we have never made the imaginary charge Mr. Gowen speaks of, all this is idle talk. But we may remark that, if it had been shown that he had been paying dividends out of capital, under cover of sophisticated accounts, the proper remedy is, not a return of dividends by one Shareholder, but the removal of the delinquent President.]**

But, Gentlemen, another charge. **[This is made at p. 11 of Mr. Bond's address.]** I am charged with making a loss on the Susquehanna Canal, and that has been, I admit, the greatest loss we have ever had in a leased line. But I will tell you why I made it. If you look at the plan [*pointing to map*] you will see a place called Columbia on the Susquehanna River. We own the road from Reading to Columbia, and at Columbia we ship on this canal which runs south and

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supplies the Baltimore lines in that way. When I became President, I found that Mr. Smith had bought the shares of the Company which formerly owned this part of the river, but I found that Mr. Smith had not bought any outlet. He had lent them money in order to enable the Canal Company to pay their interest and to prevent them falling into the hands of an adversary. I thought it was the manlier and wiser way to hold the canal directly, and wipe off the loss, rather than to keep upon the books a sum of money which had been advanced to another Company: and, as he had already practically bought the control of it by owning its shares, we took a lease of it, and that added $150,000 or $160,000 a year to our losses of course. But those losses were incurred for this reason. At the time the Company was taken and the road was built, the way we supplied the Baltimore market was through Columbia, by the Susquehanna Canal. Since that time a great change has taken place in the method of supplying the city of Baltimore. Baltimore and Georgetown in its vicinity are great places for the shipment of bituminous coal to New York, up the canal and up the river going up by Philadelphia into New York. That is grown to such magnitude that empty boats passing back by way of Philadelphia to Baltimore can take coal thither cheaper than we can supply it by means of the Susquehanna Canal. Whatever loss we have made upon the Susquehanna Canal, we have made up on our own line. That is known to Mr. Bond and to Mr. McCalmont. Everybody knows that we should lose money on the main line if we made money on the canal. It is cheaper to lose it. It is cheaper to do the business on the railroad, because upon the railroad we can do it cheaper, and that is the long and short of it. But they would have both. Then there was another reason for taking the canal. Above Columbia the canals belong to the Pennsylvania Company, our great opponent. Their canal traffic to Philadelphia must come through the Susquehanna Canal. On the other hand, we have to go through their canal to get to New York. We have been able to get pretty good rates out of them for the use of their canal from Philadelphia to New York in consequence of the fact that we have the canal from Columbia to tide water, over which their tonnage has to go. Now, all this was known. [**This case was not brought forward by us and we are not sufficiently acquainted with the facts to deal with it in detail. Mr. Bond no doubt will do so. But Mr. Gowen's assertions have proved so uniformly untrustworthy, when we have the means of testing them, that those which he makes on this subject ought to be considered as leaving the question where it was before. Elaborate arguments, all tending to prove it to be good policy to lose money, might be tolerated in the case of a railroad manager who has vindicated himself by uniform success. But with one whose policy has abolished dividends, caused two suspensions of**

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payment, and driven him into the necessity of defending follies by fables, such arguments ought to go for nothing.]

Another charge in Mr. Bond's pamphlet [p. 14] is that we leased the Catawissa Railroad, thus involving an annual outlay of $180,000 per year. **[This again is a case which, for want of acquaintance with the facts, we must leave Mr. Bond to deal with.]** The Catawissa road [*pointing to the map*] runs from a place above here away up to Williamsport. One of those black lines was built, and we were in danger of losing the tonnage on the Catawissa road, or rather so much a year for it, so we leased the Catawissa Road, and we paid so much a year for it. This is the outlet now over which we go west with Vanderbilt, as I shall explain by and bye. The moment we lease a road it becomes a part of our system. We keep no separate books for it, but we keep a memorandum of accounts to show how it works, and we credit that road with a certain *pro ratâ* of all the charges for transportation. If any business originates upon the Catawissa Road and travels 20 miles upon that road and 100 upon the Philadelphia and Reading Road only one-fifth is credited to the former, and that makes an apparent loss to the Catawissa Road. But what I say to you is this—and I am quoting from memory—the Catawissa Road has had a business varying from $600,000 to $900,000 per year. Of course upon its own line a nominal loss appears if we only give credit for a *pro ratâ* of the receipts; but the fact is admitted that all that tonnage passes over the line to the Reading Railroad and we make from 35 to 50 per cent. out of it. They figure up a loss to this Company of from $1,500,000 to $2,000,000 in ten years by reason of our owning the Catawissa Road, when in reality the loss, as I have shown, is merely a fictitious one, and the balance sheet will show that we have made a great deal of money by carrying on the business of the Catawissa Road over the Reading Road, and we should have wasted it but for that.

Again, Mr. Bond also says in his pamphlet [p. 15] that we have purchased the Montour Iron Works, for which he says the Company have never received a cent. You see Danville [*pointing to map*]. In Danville there is a very large iron establishment. It has been a very successful one since we bought it a year or two ago for a fair price, and it has been doing very well. We own all the debt and we have got two-thirds of its share capital as a bonus. We advanced the money to buy it. That Company has earned a great deal of money. I do not know what it is, but from 10 to 15 or 18 per cent., certainly, since we took it. Mr. Bond says the Reading Railroad Company has never received a dollar of interest from this account. That is true. It was not bought by the Railroad Company. It was bought by the Coal and Iron Company. He might have gone further, for it is also true that the Philadelphia and Reading Coal and Iron Company has never received a dollar of profit from it. But if it has not, it is simply because there has been no distribution of profits, and because there has been no change from one set of books to the other. The Montour Iron and

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Steel Company has made a great deal of money. It has been a very successful thing, and, above and beyond all that, it has given to the Catawissa Railroad the enormous and gigantic business of a large iron establishment, which will swell the profits and traffic of that Company, which without it we should probably have lost. **[We make the same remark on this as on the two preceding cases.]**

There are a great many things I need not go through, Gentlemen. Coal speculations and iron speculations are spoken of. Why, Gentlemen, they blame me for having bought 20,000 or 30,000 tons of old rails, when the price went down during the panic of a few years ago. They call it a speculation, but it is our business to roll rails, and we roll 50,000 or 60,000 tons every year. We have to buy old rails in the market to mix with the new rails and to make new ones. We buy from 30,000 to 40,000 tons. We bought a lot, as we are always buying a lot, during what is called the iron boom. Prices went down and of course we lost money upon them. I am sorry for it, and if I had known that prices would go down I should never have bought them; but who is to know these things? They call that a speculation. I am willing to admit that I made a mistake. God knows if you can pick me out a railroad president, or a man in America who can tell you what the price of iron will be a year or two hence, such a man could command a salary of a million dollars a year instead of £4,000 or £5,000. You cannot tell what the price of iron is going to be years hence. You cannot get such valuable service for what I get. I give the Company a *quid pro quo* for what I get. Why do not they pick out the iron I made money on? They say nothing about that. If I buy iron and the price goes up we make money on it. If it goes down we lose; but we always have to buy because we cannot stop the rail mills; we must keep a supply of rails on hand. We take contracts a year ahead sometimes, and if we take contracts for rails we must protect ourselves by taking contracts for the old materials. **[The iron purchases are brought forward by Mr. Bond, p. 18, and, again, we have no sufficient knowledge of the particulars to deal with them in detail. But the general observation must force itself on every one capable of clear thinking that this is at once an illustration and a condemnation of Mr. Gowen's whole policy. To get traffic for the railroad he becomes a colliery proprietor and iron-miner. To sell his coal he undertakes the retail coal trade all over Philadelphia. To transport his coal coastwise he needs ships, and becomes a ship-owner. To repair and build his ships he must turn a shipbuilder, and half construct great shipyards. To get rid of his iron ore he starts in the business of rail-manufacturer. That leads him into enormous speculations in the purchase of other people's iron. Where is this to stop? There are only two limits, the**

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acquisition and working of the whole business and industry of the country, to those who have the lamp of Aladdin; and to those who have not, bankruptcy.]

So I dismiss all that, [**we wish we could,**] and I come now, Gentlemen, to the charges made against me since the troubles of the Company a year or two ago, and the first is with reference to the Deferred Income Bonds. [**We beg the Shareholders' special attention to this, for here we have Mr. Gowen in the inconvenient presence of facts with which we are acquainted. See our Circular, pp. 7—19.**] Now, Gentlemen, I am charged, as I understand it, with having first made a fictitious issue of these bonds. I am charged with having stated that the bonds were subscribed for over and over again, when the fact was that that was not so, and that the names of the persons who subscribed them were not good. I am charged with having taken a guarantee for those bonds from the Anglo-French Union Bank, when it is said that that Bank could not have responded to it, and I am charged by innuendo with knowing that that Bank was bad, and having palmed off upon the community a worthless guarantee for a good one. [**We refer to our Circular itself for what we have said. It seemed to us sufficient to state bare facts, unquestioned and unquestionable, and let them speak for themselves. The charges which Mr. Gowen says we make are his interpretation of those facts.**]

Now, Gentlemen, I propose to go into this at some length. When I came over here last winter to sell these Deferred Income Bonds I was authorised by the Court to pay $514,000 in commissions, if I could secure a guarantee for those bonds that would be protected by a deposit of $2,058,000: and the guarantee was to be simply this, that the party putting up the money, and making the guarantee, was to agree to take all the bonds which the Shareholders did not take. If the Shareholders and Bondholders took them all there was to be no liability under this guarantee whatever. Now, when I came over here I got amongst the Shareholders and amongst certain friends of mine, and I found out very quickly that the loan would be taken without the necessity of paying anything for a guarantee. Now, the guarantee was in no way essential to its success. The guarantee was not necessary. There was no legal liability to have a guarantee. I will admit that I was only authorised to pay $514,000 in commission for a guarantee accompanied by a deposit of money; but I saw the loan would be taken without, and therefore I determined to have no guarantee. The prospectus was ready for issue without a word about a guarantee in it. It was simply designed to say that all that would not be taken by the Shareholders and Bondholders would be taken by an association of gentlemen who were ready to subscribe for it. [**It would have been convenient if Mr. Gowen had given the names of this "association of gentlemen." We infer, from the lists published in our Circular, pp. 17, 18, that it was com-**

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posed of the Anglo-French Union Bank Limited, Mr. James McHenry and his friends, and so on. But we may be mistaken.] *On the morning of the day upon which the prospectus would have been ready to go out,* [i.e., on the 4th January, 1881,] Messrs. McCalmont Brothers & Company published in all the papers in London a letter, stating that, as this issue was being made under the Order of the Court, which required a deposit of $2,058,000 to protect the guarantee, the issue would be void unless the guarantee was deposited, and they cautioned people against subscribing to the loan. Very well, here I was, at that time a stranger as it were in a strange land. I thought McCalmont Brothers & Company's *ipse dixit* on this subject might have been all powerful with the Shareholders of the Company. If I had known then what I know since, how little influence Messrs. McCalmont Brothers & Company have with the English Shareholders of the Reading Railroad Company, I would have gone on my own way without the guarantee. But I said to one or two gentlemen, [belonging, we suppose, to the "association of gentlemen,"] who were willing to take up all of this loan which was not taken up by the Shareholders and Bondholders, I said, "Now you see the effect of this. It will take a week "to explain this to the English public. You know that all this is subscribed for "practically already. You know that any Bank giving a guarantee will not have "to pay a single penny. I do not propose to pay a cent for any commissions on "this transaction: but you have agreed to take, and I have agreed to give you, all "that is not taken by the Shareholders and Bondholders." And I said "The best "way of meeting this is for you to go to some Bank and bring me a "guarantee for this loan." [The "association of gentlemen" must have been powerful, to be expected to keep ready-made Banks of that strength in stock. Mr. Gowen talks as if he were ordering a pair of slippers.] The next morning, I think it was, [i.e., on the 5th January, 1881,] they brought me a guarantee signed by the Anglo-French Bank Limited, and a letter of credit upon the Bank in Paris [that is, a letter of credit by the Anglo-French Union Bank in London upon itself in Paris] for the $2,058,000, or the equivalent in francs. They told me that they had gotten that from the Bank with the understanding that I need pay nothing for it unless I actually used the money, and if I withdrew the money from the Bank I was to pay exactly the same commission that any London Bank would charge for issuing a credit of the same amount. [The guarantee in fact was on different terms, binding the Railroad Company to pay interest on the "deposit" from the date of the guarantee, and saying nothing about commission; see p. 11 of our Circular. But such details are probably too mean for Mr. Gowen to consider.] I said, "Very well. I "won't pay them a cent. I will not use the money; I will hold it; "because the moment the books are opened they will be subscribed for, and

"there will be no risk, and I will hand it back to them." [**Our experience of business would have led us to suppose that no deposit or letter of credit of such an amount as ten millions of francs could have been obtained for nothing, however small the risk might be. But the Anglo-French Union Bank may have its own way of doing such business.**] I subsequently discovered that according to the usage in England every subscriber to or applicant for a loan had the right to withdraw his application at any time before the allotment letters went out; and I therefore kept this guarantee and kept this letter of credit in my possession until the allotment letters went out, and on the day the transaction was closed [**but before any of the payments which it ought to have secured were made,**] I handed it over to the officer of the Anglo-French Bank.

Now then, what are the charges? The first, and that is not so important as the second, is that the guarantee was not good; the second, and the more important, is by innuendo that I knew it was not good, and purposely prevented the fact of the person who gave it being known. [**As before, we refer to our Circular for what we did say. We stated plain, dry facts, and left them to speak for themselves; and Mr. Gowen's "charges" and "innuendos" are his inferences from the facts we stated. He would have done better to address himself to the facts.**]

Now, the complete answer to the assertion that it was not good is that it did not make the slightest difference to the Shareholders of the Company whether it was good or not. There never was any liability incurred under it. [**What, not for the Bonds allotted to the guarantors?**] Nobody ever lost a dollar. There never could have been a liability; because I knew, and had the arrangements made before the prospectus was issued, that the whole of the loan would be taken. [**See Note 15. We predicted this answer, p. 15, of our Circular. Mr. Gowen will not see that the question is not whether the guarantee needed to be given, but whether, when given, it corresponded to the description which he gave of it to the Public, his co-Receivers, and ourselves.**] That was the first. The second charge is a graver one: that it was bad, and that I knew it was bad. There are two answers to that; and the first and complete answer is, so far as I am concerned, *that I never knew or heard of the Anglo-French Bank until I got its guarantee.* [**Now he got it, he says, the day after our letter appeared, and therefore on the 5th January. But the prospectus was issued on the 4th. Mr. Gowen therefore**

NOTE 15.—Mr. Gardyne writes in answer to an inquiry made on behalf of the Company since this Speech was delivered, that there are no papers at the London Agency of the Company to shew this, and we understand there are none in the Philadelphia Office.

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here convicts himself of the gravest misconduct. Next to asserting that which the speaker knows to be false, comes the offence of making an assertion without knowing or caring to ascertain whether it be false or true. From the explanations he here gives, it appears that, whereas in the afternoon or evening of the 4th January, he published a prospectus in England stating that the unallotted balance was "already agreed "to be taken . . by a combination of capitalists, who have "provided the guarantee deposit," and telegraphed to the Receivers on the same day, "Contract signed and $2,058,000 "deposited as guarantee by good Bank," he had not on that day got any contract or deposit at all, and did not know or care anything about the Bank of which he thus spoke, and indeed, did not even know its name! All he says is that he had told some of the "association of gentlemen" to "go to "some Bank and bring him a guarantee." Nor does he say that, when he got it, he ever made the slightest enquiry concerning the Bank which had given it. Really, if one were to judge from the levity with which he talks on such a serious subject, it would seem as if the "association of gentlemen" need not have taken the trouble to find him such a good Bank, and as if he would have been just as well content with a guarantee and letter of credit from the Bank of Elegance, or the Dogger Bank, or the Bank whereon the wild thyme blows, or the Great Bank of Newfoundland.] *I had no intercourse or association with it. I never applied to it either directly or indirectly, or knew that there was such a Bank.* I applied to gentlemen of abundant means, who themselves procured this guarantee from a Bank whom they were able and willing to *protect;* [what does "protect" mean?] and that guarantee, Gentlemen, was good, and the gentlemen who procured it to be given were good. *I do not propose to drag into a public assembly the names of my friends and business acquaintances,* [we should much like to know a little more of these cloaked and hooded capitalists, sitting in the dark, with ten millions of francs in their pockets, silent and waiting, ready upon the first call to be, to the extent of all their means, the friends of Mr. Gowen's friends, and we suppose the enemies of his enemies. Who are they? Where do they live when they are at home? Is there any one we know who knows them? They cannot include Mr. James McHenry, for his name has been disclosed; nor the Anglo-French Union Bank Limited, for Count de la Chapelle, further on, tells us the Bank was a simple agent. They are not the "association of gentlemen," for those bearing that honourable

title were only to subscribe for the bonds, not in the least to make the deposit. Then, again, as to these unknown persons being "good," we can neither affirm nor deny it, for Mr. Gowen refuses us the joy of knowing who or what they are. And then "good" is a word of such various significations. It may mean that they are poor but honest, or rich and very much the other thing, or that they unite equal degrees of wealth and virtue. We must relinquish the problem as insoluble,] for of all the disgraceful things that ever disgraced the management of a corporation the publication in ribald newspapers [e.g., the Philadelphia Public Ledger of 9th August] of the names of the gentlemen who dealt with it for their loans, has been the most disgraceful. [See Note 16.] You deal with gentlemen upon the assumption that their private transactions are sacred. ["Sacred" seems rather a strong term to apply to Mr. Gowen's little private arrangements with the Anglo-French Union Bank, and Mr. James McHenry and his friends; but Mr. Gowen's choice of epithets is peculiar.] One might as well publish the list of the depositors at a Bank, and break down a man's credit from the fact that he had not much money in the Bank on deposit. You invite subscriptions from the public, and resting upon the implied assumption that you are a gentleman they make their subscriptions, [were Mr. Gowen, and the Anglo-French Union Bank, and Mr. James McHenry and his friends, Mr. Gowen's "public"?] and then the officers of the Company, or rather Mr. Bond who represents Messrs. McCalmont, [Note 17] publish the names of men and drag them before the public to smirch them, [We think we have said nothing to alter the public estimation of any of the gentlemen with whom Mr. Gowen dealt. We did not intend or desire to alter it, and should be sorry if we had. And how could we "smirch" the name of the Anglo-French Union Bank Limited, by simply publishing that it had subscribed for $10,000,000 of the Philadelphia and Reading Railroad Company's Deferred Income Bonds?] and you are to assume that they had not the money by which to respond to their obligations.

NOTE 16.—What were published were the names of some of the gentlemen who subscribed to the Railroad Company for its bonds—in short an allotment list of a public issue; which is so far from a delicate secret that, as Mr. Gowen elsewhere tells us, he is keeping it to interest and instruct such an unsympathetic body as the Stock Exchange Committee.

NOTE 17.—There was no impropriety in publishing the names; but in the interest of accuracy we wish it to be understood that no one has represented us in America except Messrs. Kidder, Peabody & Co., and our Counsel. Our only publications are those to which our name is attached.

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Now, Gentlemen, when they [**Not we. Our only publication is our Circular,**] first made this charge they had embraced in the list of so-called defaulters the names of some of the best men in Europe. They had at least three names there which represent united wealth, which I know by my personal knowledge is greater than McCalmont Brothers & Company dare hope to accumulate. Now they have left those three names out in this Circular, and they have put three names in their places for the purpose of making it appear that because a man subscribes to a great deal of bonds his subscription is worthless, and he has not the money to pay for them. Now, Gentlemen, I propose to submit this fact: *when a loan is at a premium every subscription is good*; when a loan is at a premium you cannot prevent persons from applying for a great deal of it. This loan sold at $2 of premium almost before the prospectus was out. It went up as high one day, I am told, as $3·75 premium for $3 paid; and can you wonder that people wanted a great deal of it? Is it any use enquiring into the personal standing of a man who offers to subscribe and pay you for an issue to be made on the Stock Exchange, which you yourself could sell, if he does not take it up, for twice as much as he agreed to pay you for it? Did you ever hear of such a thing? [**Certainly. See Note 18.**] The best thing that could have happened to the Company would have been that all these people were defaulters, and you would have sold this loan, after having enough subscribers to ensure a quotation on the London Stock Exchange, at a premium. But now, Gentlemen, let me say more about this Anglo-French Bank. When I was over here last summer, and these charges were first made, a gentleman named Count de la Chapelle, who is the manager of the Bank, and whom I had met once or twice socially—but I did not know anything about his Bank, or that he belonged to the Bank,—thought it his duty to write me a letter in answer to this charge: and he wrote a letter last July or August to say that his Bank had *not* failed; [**Anyhow, the Tribunal of Commerce of Paris says it had, in the judgment of the 18th May last, by which it pronounced the Bank en faillite, equivalent to an adjudication of Bankruptcy. See Note 19.**] **We do not see how Mr. Gowen can reconcile this with his statement, unless he were to suggest that the Tribunal of Commerce of Paris gave an erroneous sentence under the influence of the Pennsylvania Railroad Company;**] that the Bank was perfectly good and they had issued the letter of credit upon the request of a

NOTE 18.—Mr. Gowen (we put aside the particular persons of whom he speaks and address ourselves only to his principles,) is here delivering nothing else but an apology for the much-persecuted race of stags. It is so agreeable a subject to him that he resumes it further on, and we shall there reply to it.

NOTE 19.—We have obtained an official copy of the Judgment of the Tribunal of Commerce of Paris, dated 18th May, 1881, certified under the seal of the Court, and legalised by the British

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syndicate of gentlemen who are able to *protect* them; and he said he thought it due to me to say that his Bank was organised to come under limited liability for the purpose of taking over the business of *another large Bank* in France, but before they were ready to go on with the business of that Bank they discovered they had *made a mistake*, and that there was a claim in respect of the Bank that they were going to take over; [**We cannot understand this. See Note 20 ;**] and they went out of business, and for causes which did not affect their credit in the least. A great deal was made of the fact that the Articles of Association are signed by five or six persons who are not known; [**they are signed by seven. It is true we know none of them, and know nobody who does: but that is not their fault, and there are many good people in London whom we do not know ;**] but I do not know that much can be made of that, because gentlemen very often send their clerks and other persons to get out the Articles of Association, and they *add their own names* for the purpose of obtaining the requisite number. [**Mr. Gowen gives us no guide to ascertain which of the seven gentlemen were the employers of the others.**] That

Consul at Paris; from which we make the following extracts:—"First, Messieurs Bussienne, "Hollebecique & Co. . . . ; Second, Monsieur A. Warman . . . have presented "to the Tribunal, under date 12th May, 1881, a petition by which they had the honour to state "that they were creditors, Messieurs Bussienne, Hollebecique & Co., of the Société Anonyme, "called the Anglo-French Union Bank, having its office at Paris, 9, Boulevard des Italiens, for a "principal sum of 1,500 francs resulting from the Judgments given by this Tribunal on the "6th April and 10th May, 1881, and Mons. A. Warman, of the same Society, for a principal sum "of 1,000 francs resulting from a Judgment given by the same Tribunal on the 6th of this "month: that this Society was the object of numerous demands: (*poursuites*:) that the cessation of "its payments was notorious . . . After having deliberated according to law; and "considering that it appears from the information furnished to the Tribunal that the Society, "the Anglo-French Union Bank, is in a state of complete cessation of payments; that in "consequence there is ground for declaring it in a state of open *faillite*; For these reasons the "Tribunal, judging in first resort, declares in a state of open *faillite* the Société Anonyme the "Anglo-French Union Bank, in liquidation, with a capital of 12,500,000 francs . . ." The Judgment then proceeds to direct seals to be placed upon all the offices of the Bank, appoints Monsieur Richemond, one of the members of the Tribunal, to be the Commissioner for the *faillite*, and names as provisional Syndic (Trustee) Monsieur Chevillot, No. 7, Rue Jean Lautier, Paris. The Judgment winds up with the usual mandate from the President of the Republic to all Officers of Justice to put the Judgment in execution throughout France.

NOTE 20.—The "other large Bank" must have been the "Banque de l'Union Française du "Credit" (see p. 9 of our Circular). But that Bank was only the Anglo-French Union Bank Limited itself in its original shape; for, with the exception of the £140 taken by the seven gentlemen who subscribed the Memorandum of Association, the whole of the issued capital of the Anglo-French Union Bank was allotted to the Managers of the Banque de l'Union Française credited as fully paid up. How could they make a mistake about the liabilities of their own Bank? Count de la Chapelle's letter of 9th November, 1881, says nothing of all this, and we suggest that Mr Gowen's memory has betrayed him.

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letter I carried home with me in September, and unfortunately I have not it here, and I could not get it over in time; but Count de la Chapelle was telegraphed to, and written to, when this circular of McCalmonts came out, and I this morning received the following letter from him:—

"Paris, 1, Rue Godot de Mauroi, Nov. 9, 1881.

"Dear Mr. Gowen, It was this morning only that I have been able to obtain the pamphlet "issued by Messrs. M'Calmont Brothers and Co. If I was not detained here on important "business I should have taken this evening's mail so as to be present at the meeting to be held "to-morrow in London, and I should have asked to answer myself to the hypocritical insinua- "tions and furious attacks made against the syndicate *in re* Deferred Bonds Issue: and I should "have substantiated all explanations I had the pleasure to provide for you on another occasion. "I should have demonstrated, with proofs in hand, that the members of the syndicate who did "provide the guarantee fund were of a financial standing at least equal to the proud firm of the "McCalmonts, and certainly more honourable. The statements on the Anglo-French Union "Bank, which was simply an agent in that transaction, are false, malicious, calumnious; and a "simple perusal of the books would show that the said establishment has employed an ample "cash capital, and that it has transacted large business of issuing first-class stocks during December, "January, and February last. It has been put in voluntary liquidation for absolutely private "reasons, and without any *bonâ fide* liabilities. I should also have proved that the 10,290,000 fr. "were deposited to meet the agreement with the Philadelphia and Reading. However, I cannot "be present at the meeting to-morrow, being detained here on a public transaction with French "bankers; but I shall come to London at an early date, and I shall give to Messrs. McCalmont "a peremptory answer to their malicious insinuations and unprincipled manœuvres. I remain, "dear Mr. Gowen, yours faithfully,

"CTE. DE LA CHAPELLE, late Attaché to the Emperor Napoleon III."

[We shall wait for Count de la Chapelle's promised "demonstra- "tion"; but since he evidently does not think (as Mr. Gowen does) that his friends have been entering into transactions too "sacred" to be revealed, it would have saved him trouble, which we regret should be imposed on him, if he had simply given in his letter their names and the particulars of the deposit. Gentlemen of such position could also easily furnish a City reference which would dispense with all further proof. The "issuing" by the Bank of "first class stocks," of which the Count speaks, we had not previously heard of.]

I think, if what I am told is true, that Messrs. McCalmont Brothers & Company will be furnished a public opportunity of demonstrating the truth of their assertions, but I do not propose at present to go further into the transaction than to say that I believe this Bank and those who procured it were abundantly able to make this guarantee. I was told they were by a gentleman in whom I have the most implicit confidence, and I am happy to be able to say that Count de la Chapelle, who represents the Bank, proposes himself to demonstrate that to Messrs. McCalmont in a way which will probably make them a little more cautious in the future how they issue publications such as this.

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Now, Gentlemen, this is in McCalmont Brothers & Company's Circular. They say that they found out that £500 was paid out of the expenses of this issue to this same Count de la Chapelle, and they assume that it was paid as a commission for this guarantee. I propose to explain what it was paid for. Before I came to London, I had telegraphed Messrs. McCalmont Brothers & Company asking them to advertise in the papers the fact that I was coming, and to call a public meeting as it were, and they telegraphed me back declining to do it. I thereupon telegraphed to another friend I had in London, asking him to publish the fact of my coming, and to prepare the way for the issue of these deferred income bonds; and that gentleman did that in Great Britain thoroughly and effectually, and being a personal friend of Count de la Chapelle, who had a greater acquaintance on the continent than he had, he requested Count de la Chapelle to attend to making the fact public in Paris and elsewhere on the continent of Europe, to see that it was advertised, and to pave the way for the issue of these bonds; and the £500 paid to Count de la Chapelle were the expenses of those publications and the expenses of the journeys connected with it, and for no other purpose under heaven. **[Then all we can say is that the Count's advertising agency was a very expensive one, and the proclamation to Europe of Mr. Gowen's advent a very costly job.]**

Then they say, Gentlemen, these bonds are not paid for. Let me tell you the most conclusive answer to the statement that these were not *bonâ fide* subscriptions is the fact that they were *not* paid for. They were selling at a premium. If people subscribed and could not pay, all they had to do to make money was to go on the Stock Exchange and sell their allotment letter for the settlement; and when the settlement was granted they could have realised on it without paying a cent of money. Every one who has transactions upon the Stock Exchange knows that. Let me tell you not one of those six or eight names, (myself amongst the number,) which are published there as defaulters ever sold a dollar. **[This is just what we surmised in our letter of the 3rd February last.]** Had they been defaulters, or "stags" as you call them here, what would have happened? What they promised to pay $3 for, they could have sold the same day for $6. Is not that a complete answer to the statement that they were not *bonâ fide*? Did you ever hear of a "stag" who could not pay a subscription upon a loan which is selling at a premium, and yet knowing he cannot pay, failing to take advantage of a state of circumstances that would enable him to double his money without the expenditure of a cent of capital? Have you ever heard of such a thing? Every one of them holds them yet. **[In this interesting little monograph on the London stag, Mr. Gowen describes, with a faithfulness only to be attained by intimate familiarity, the simple creature's readiness to feed out of one's hand. But it is plain that he does not understand the outside influences that were at work on his own**

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issue, making this pleasing process after a certain point impossible. See Note 21.]

Now, why were they not paid? First let me call your attention to this fact. Out of that issue of $34,300,000, subscribers for $26,508,650 have paid the first instalment; subscribers for $7,981,000 have not paid. That is at par. **[And those who have not paid are very largely composed of Mr. Gowen himself, the Anglo-French Union Bank Limited, Mr. James McHenry, and Mr. James McHenry's friends.]** Why did not they pay? Gentlemen, four days before the time fixed for payment Messrs. McCalmont Brothers & Company obtained from the Court in Philadelphia an Order which relieved the subscribers from the necessity of paying, which threw a doubt upon the legality of the issue, and which contained an order enjoining the Receivers from forfeiting the allotment of any one who did not pay: and yet McCalmont Brothers & Company object that they are not paid. Why, they cannot have the penny and cake both. They cannot take the money and refuse to give the bonds. They say you did not pay. Why, they obtained an Order from the Court, four days before, preventing their payment. **[Not "preventing their pay-"ment." Mr. Gowen has stated the terms of the Order accurately a few lines above. Why does he wriggle from them? The Order merely directed that there should be no forfeiture for not paying.]** But for what they did, if a man did not pay, the Receivers might have forfeited his allotment, and sold it at a premium to somebody else; but four days before the money was due they obtained an Order from the Court, as to the whole of the Bonds, issued to the Receivers, who were officers of the Court, enjoining them from attempting to forfeit the allotment of any man who did not pay: and having prevented payment, [no,] having prevented us from forfeiting for non-

NOTE 21.—An issue of so speculative a nature became, of course, the sport of bulls and bears: and intricate stock exchange operations, whose course and origin we could never trace, went on in London and New York with the effect of forcing up the market price. There were subscribers, (some of whom may have belonged to the "association of gentlemen" of whom Mr. Gowen speaks,) who were induced by this state of things to realise, and of course paid. But the enormous amount which that "association" had to take would have rendered it impossible for them to realise, even if they wished it, otherwise than slowly. If they desired to sell, there might possibly be some arrangement among them who should be allowed to get out first. Among the subscribers whom we have not quoted was Monsieur Paul Theys, of 81, Wardour Street, the Secretary of the Anglo-French Bank, and Monsieur Barjan, of the same street, who paid upon their subscriptions, and may have sold. We have reasons for believing that some of the large subscribers at p. 18 of our Circular sold. But we understand that, before the operations proceeded far, the Stock Exchange of New York gave an adverse decision which stopped them, and the market here for real dealings soon flagged, and we believe that the "association of gentlemen" could not have sold their large holdings, whatever their wish. Therefore, the fact of neither selling nor paying does not sustain the argument which Mr. Gowen founds on it.

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payment, you turn round and blame the people because they do not pay. You come up behind a man and knock him down, and then you turn round and kick him for falling. Did you ever hear of such gigantic impudence as that, Gentlemen? It rises into the sublime. Here is a firm that goes into Court, that declares an issue void, that enjoins the people from paying, [**there had been, when the day for payment arrived, no injunction against paying. Mr. Gowen having wriggled into this misrepresentation sticks to it,**] and enjoins a forfeiture for non-payment, and then turns round and complains of the wonderful success of its own manœuvre. [**Throughout all this there is a steady avoidance of the two vital questions, to which we had urgently called attention at p. 19 of our Circular. First, Mr. Gowen might see there these words: "We do not complain of mere non-payment, "but of the nature of the allotments, of which the non-"payment is but one particular." To come closer to the point, what business had Mr. Gowen to tell the public and his colleagues that the whole loan was placed with Shareholders and Bondholders, and that the guarantors got none under their contract, and to talk before a great audience in Philadelphia as if the outside public had swallowed up the whole loan, and was ready to swallow up as much again, when, without the payment of a penny, a million and a half of the issue had been allotted to himself, half a million to the Anglo-French Union Bank, and various other amounts, making up with those just mentioned, more than seven millions and a quarter, to the persons mentioned in our Circular, p. 17? Second, Mr. Gowen might have seen at p. 19 the invitation to remember that the Order which is his excuse stopped hardly anybody from paying except him and his associates; and not all of them. If Mr. Gardyne could pay, why could not Mr. Gowen? If Mr. Alexander McEwen could pay, why could not the Anglo-French Union Bank Limited? If Mr. William Abbott could pay, why should the Order of the Circuit Court have stopped the other subscribers mentioned in our Circular? The Order of the Court did not apply to one more than the other. Here and every where, Mr. Gowen harangues about details, and neglects the core and substance of what he has to deal with.**]

Now why is all this? I propose to show you why all this trouble is, Gentlemen. On page 25 of Mr. Bond's pamphlet which you have got, or will get I suppose within a day or two, you will read this. Mr. Bond says "It has been suggested

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" by Mr. Gowen that, by making the bond payable at some definite time, the " legal difficulty could be removed. If such new form of bond were to be " issued it would be most unjust to the many Shareholders of the Company " who refused their subscriptions to the deferred bonds in the belief that " they were illegal to permit the subscribers to the original scheme, who " made their subscriptions with a full knowledge that the issue of the " bonds was to be contested on the ground of illegality, to obtain a modi- " fied, and to the subscribers much more valuable, obligation. It is to be " noticed that, by the modifications proposed, an obligation will be placed upon " the Company to pay $34,300,000 dollars at some definite period, in return " for the $10,290,000 received by the Company, and the liability to pay this sum " in case of future financial disaster would be an obligation which would take pre- " cedence of the stock." There is the milk in the cocoa-nut. Messrs. McCalmont Brothers & Company believed, or professed to believe, and I must do them the credit to suppose they believed, that the issue of bonds could not be a success, and they refused to subscribe to them. Other persons did subscribe, and it was a great and transparent success, [!] and now, because they did not get their share when they had an opportunity, they are determined that the Company shall not get out of trouble until they break down the issue, and they can get their own fingers into the plum pie and pull out as big a share as anybody else. **[Mr. Bond's remarks, which in themselves are perfectly just, have no application to our case. And Mr. Gowen, who is always reminding his hearers how much law he knows, ought to have seen that if Mr. Bond had changed the form of the Deferred Bonds as proposed, and if we had been as desirous of subscribing as Mr. Gowen supposes, there would have been plenty of room for us to do so, for the original subscribers would have had no legal right to the altered Bonds, which would have been a new issue, and a new contract: and whatever moral claim ordinary subscribers might have had, the seven millions of allotments to Mr. Gowen, the Anglo-French Union Bank Limited, and his other friends in the same position, would we should hope have been disregarded. So that his argument fails, and he will have to look elsewhere for "milk" to fill his "cocoanut," whatever that mysterious and elegant metaphor of his may mean.]**

Now, what have we lost by this? We have paid $2,000,000 of interest more this year than we need have paid had it not been for Messrs. McCalmont Brothers & Company. We have lost the good times of eight months ago in which we could have sold our bonds, and we have come upon a money market when we might lose 5 per cent. upon $100,000,000 if we attempt to sell them. **[It is hardly**

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worth while to deal seriously with these wild figures, but we may remind the Stockholders that Mr. Gowen has never put forward even a claim to be entitled to convert a larger amount of the existing debt than $40,000,000. A present issue of $100,000,000 is absurdly impossible. See post. p. 71. Note 30.] That is a loss of $5,000,000 on the principal and $2,000,000 interest, amounting to $7,000,000. All this loss is simply because Messrs. McCalmont Brothers & Company, acting under bad advice, made a mistake, and did not take a good thing when they had a chance to get it. What other excuse can you have for it? [This, that there is no such loss, that the scheme was illegal, and that its consummation, as we have shown over and over again, by arguments which Mr. Gowen never dares to grapple with, would have put the Company in the direst peril.] If they doubt the ability of these persons to pay the bonds let them withdraw their injunction. Let them take their yoke from off our necks, and ask the Court to relieve us from the injunction to-morrow, [which would not make the issue legal,] and I will stake what reputation I have that the whole of this $7,000,000 will be paid within 48 hours; and if it is not paid I will enter into a bond, here and now, that I will never be a candidate for the office of President of this Company, and the place that has known me for 13 years shall know me no more. [We hope to effect this without troubling Mr. Gowen for his bond.] Let them try it if they dare. Let them withdraw their injunction. Let them take their hands from our throats. Let them give us an opportunity to pay, and if we do not pay then let them turn round and say we are defaulters.

Now, remember, Gentlemen, they have studiously, in all the figures, suppressed the subscriptions of Shareholders which amounted to about $20,000,000. [Mr. Gowen's anger must have affected his sight. We printed the exact amount of these allotments at p. 16 of our Circular.] They object to $28,000,000 of subscriptions out of the $72,000,000. Now if you take the whole $28,000,000 off the $72,000,000, it leaves $44,000,000 which they had no right to object to, and which they never have objected to, and that is $10,000,000 more than the whole loan. [To correct Mr. Gowen's mistakes is as wearisome as counting the sands. We have mentioned the "Shareholders' allotments." We have a good deal which we could say as to them, and to allotments to other "Bondholders" than those whom we have cited, and we have intimated this at pp. 16 and 17 of our Circular. But in the crowded garden of gay flowers which Mr. Gowen's enchantments caused to spring up, we had to make a selection. We should have overloaded our readers and ourselves if we had taken all:

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so we only culled some of the brightest blossoms and rested. But Mr. Gowen must not tell us that all the rest was barren, for we know better.]

But if they object to this they have a tribunal here in London for determining it. Here sits Mr. Taylor, a member of your Stock Exchange. There sits my friend Mr. Satterthwaite, another member of your Stock Exchange. They were the brokers who brought out this issue, who appeared before a Committee of the Stock Exchange and obtained a settlement for it, by the unanimous vote of that one tribunal which is recognised as the right tribunal to determine the *bona fides* of such a transaction. **[A settlement has nothing to do with bona fides. See Note 22.]** They obtained this vote when Thomas Wilde Powell sat in the same room objecting: **[Note 23:]** and having gone into Court and been ousted when the books could have been produced, when the bankers' book could have been produced, (Mr. TAYLOR. They were produced.) and they were produced, my friend says; when the Committee of the London Stock Exchange unanimously certified to the *bona fides* of the transaction **[They certified nothing of the kind. See Note 22.]** what right has any one, over their heads, to allege aught to the contrary? **[So Mr. Gowen seriously means to tell the Stockholders that they have no right, without the leave of the Committee of the London Stock Exchange, to take his conduct on the issue of the Deferred Bonds into account, when considering whether to vote for him!]** If he does allege aught to the contrary, let him go before the proper tribunal. **[The proper tribunal for this purpose is the Stockholders' meeting in Philadelphia on the 9th January.]** I will attend if I am here. Mr. Taylor will attend if he is here. Mr. Satterthwaite will attend. Fortunately the records are here in this city and can be produced: the books at Glyn's can be produced: and it would be found that leaving out all these subscriptions which they object to, the subscriptions were yet $10,000,000 in excess of the amount required, and it will be found that the amount paid was considerably more than the

NOTE 22.—The Committee of the Stock Exchange deals with a new Loan for two purposes, for fixing a Special Settlement day for the sales of it which have been made in the market, and for giving it a "quotation" in the official list of prices. In granting a quotation, the Committee does pronounce, within certain limits, on the good faith of the issue; but the fixing of a special settlement is governed by different principles. Indeed, in some cases (not in the present one) it would be necessary to grant a settlement in order to prevent or punish fraud in the issue, by compelling those to fulfil their contracts who have made artificial purchases. In the present case the settlement was granted, but the quotation (on which the good faith of the issue would to some extent have been decided on) was either not asked for, or the application was adjourned by the Committee.

NOTE 23.—Mr. Powell in the main approved of the settlement being granted. His objections were on altogether minor points, and were practically conceded.

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amount required by the rules of the Stock Exchange to be paid for the purpose of obtaining a settlement of the transaction. [We have no doubt that the conductors of the issue well knew and carefully observed the rules of the Stock Exchange.]

Now, Gentlemen, Mr. Frank S. Bond, the President of this Company in my place objects in his pamphlet, as I believe did Messrs. McCalmont Brothers & Company, that the original records of this loan were not put into their possession. We held them, or I thought we did, as Receivers. I did not want the records removed out of the custody of the London Stock Exchange until the issue was finally perfected by the granting of the quotation. I told them instantly they could have copies of everything—they could send to the office and inspect everything, and every opportunity would be given to them, and they complained; they complained that we did not give them the original papers, as if there was something in them we wanted to hide. Now, Gentleman, I have endeavoured to conduct this campaign as free from heat and personalities (except when it was warranted by the occasion,) as was possible. I have never voluntarily gone out of my way to attack any man who has not attacked me. [Or resisted him, or thwarted him, which are just as great sins as attacking him.] I did not propose to say anything about Mr. Bond, but the recent pamphlet is so outrageous that I am relieved from any feeling upon the question, and I can now in public for the first time say that it was exceedingly improper that Mr. Bond should have any official papers connected with the Company if I could keep them out of his possession. [Here Mr. Gowen commences a chapter which verifies what we said of his character in our Circular, p. 67, that instead of giving any real answer to the Circular we should have a series of fresh inaccuracies, and that he always seeks to revenge himself on opposition by charges of corruption or malice. Mr. Gowen has known for nearly a year that Mr. Bond was our candidate. For the last four or five months that gentleman has occupied the position of President in Mr. Gowen's stead. All along, Mr. Gowen has known of the election to be held next January. Till now he has not brought any charge against Mr. Bond. Now, however, he proceeds to rake up an old letter and use it, with the aid of misrepresentation, to support an entirely groundless charge against Mr. Bond's character. The motives are evidently two. In the first place, he knew we could not get any complete explanation from Mr. Bond in time to be considered by the Stock-holders at large before giving their proxies; and in the second, Mr. Bond has committed Gowenian high treason by daring, though in temperate and even considerate language, to

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lay bare to the Stockholders, as it was his plain duty to do, the nature and consequences of Mr. Gowen's mismanagement. Mr. Gowen's arrogance is shewn, not as he would have us suppose, in resisting affronts, but in resenting that anybody should dare seriously to cross him. He who thinks it such an intolerable offence that any one should dare to blame his faults, thinks himself entitled, without censure, to pour any amount of abuse upon his opponents. We are unable here to check the accuracy of Mr. Gowen's statements on all the points of the petty scandal he has raised, but we have obtained enough information from Mr. Bond by telegraph to show that Mr. Gowen is maligning him, as Mr. Gowen maligns most of his opponents; and when it is remembered how uniformly untrustworthy his statements prove to be when they can be tested, we hope the Stockholders will estimate the fresh allegations he here makes at the value that they deserve, which is, none at all. Mr. Gowen now proceeds to tell the story.] Some fourteen years ago, or more than that, this same Mr. Bond happened to be Secretary of a Company of which the Reading Railroad Company obtained the control. *As Secretary of that Company* [First inaccuracy, as will be presently seen: he did not acquire them "as Secretary:"] he had acquired possession of *its* records and its title papers, [Second inaccuracy, they were not "its" papers, but the papers of another Company and "it" was not entitled to them,] and when the Reading Railroad Company obtained possession of the Company, they naturally desired that the title papers to the property and the archives of the Company should be placed in their possession. [Third inaccuracy, the Reading Railroad Company could have no title to them, and it does not appear, though of this we cannot speak positively, that it ever asked for them, though it must, as will be presently seen, have had full notice of what Mr. Bond possessed and desired.] Mr. Bond had then presented a claim of $1,000 against this Company, and how he enforced it, in consequence of the fact that he held possession of their [not "their"] papers, he can best tell in his own language. In America the truth, when you are dealing with a public officer is never a libel, and I do not propose to say anything about Mr. Bond, but simply to read a letter which he wrote in January, 1867, to Mr. Campbell, a gentleman who was then Counsel for the Philadelphia and Reading Railroad Company: [and for Mr. Bond.]

" St. George T. Campbell, Esq., Philadelphia. " New York, Jan. 2, 1867.

" DEAR SIR—In March of 1861, just before I entered the army, I left with you " certain papers relating to my claim against the Schuylkill and Susquehanna

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" Railroad Company under the Loeser settlement. They were left with you for " the purpose of examination, and for the action of the Board of Directors of that " Company. If the Company have not already acted upon the matter, will you " please to bring the subject to their attention? If they have taken action, and " decline to satisfy my claim, will you do me the kindness to return to me the " papers left with you, as I did not retain copies of them. I hope that they will " decide to pay me the amount that I am out of pocket, as I know it is an " equitable claim against the Company. In conversation with you some time " since, you expressed the opinion that the Schuylkill and Susquehanna Railroad " Company should have in their possession all of the old books and papers, real " estate and other records, of the old Dauphin and Susquehanna Coal Company. **[Observe, not of the Schuylkill and Susquehanna Company, as Mr. Gowen has just said.]** " In June of 1859, at a public sale held " in Pine Grove, by P. Chouteau, Jun., J. F. Butterworth, and W. H. Gebhard, " assignees of the Dauphin and Susquehanna Coal Company, I purchased, " among other things, all the book accounts, debts, and unsettled claims due to " Dauphin and Susquehanna Coal Company, together with the books, papers, " and records of every kind, with the office furniture, &c., in possession of " the assignees. Among these are the original record books of the Company's " minutes of meetings of Stockholders and of directors, the general and stock " ledgers and journals, together with a number of deeds, &c., relating to " the real estate of the old Company. Should the Schuylkill and Susquehanna " Railroad Company desire to purchase these records, I shall be glad to " receive from them a proposition. I am desirous of giving the Schuylkill and " Susquehanna Railroad Company the opportunity of obtaining, to them, very " valuable records before making such a disposition of them as will place " them for ever beyond their reach. If it is of importance for them to have " these records, will you please to bring the matter to their attention. Will you " also please to acknowledge receipt of a record book of the proceedings fore- " closing the mortgage of the Dauphin and Susquehanna Coal Company sent you " some time since.

" Yours very truly,

" FRANK S. BOND."

[In this very letter facts appear which shew that, with it in his hand, Mr. Gowen has misrepresented the case very seriously, and the information we have obtained by telegraph, joined with these facts, shews that Mr. Bond behaved with entire propriety, and that Mr. Gowen's vindictive attack on him depends on statements which are altogether untrue. See Note 24.]

NOTE 24.—It will be seen that there were three Companies concerned, which we may for brevity call the Dauphin Company, the Schuylkill Company and the Reading Company. The

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Gentlemen, I became counsel for the Company afterwards. **[He was counsel for the Reading Company and may have been for the Schuylkill, but he should have told us which he here refers to. If he means the Reading Company, it could have no claim on Mr. Bond. If he means the Schuylkill Company, why did he not then make, and if necessary enforce, that Company's claim to the papers, if it had any.]** We had a great many suits involving titles; these papers and the title papers were all gone. **[Mr. Gowen does not say that they were among the papers Mr. Bond held, or that Mr. Bond was asked for them.]** Fortunately, under the system which prevails

Dauphin Company, as we have learned elsewhere, sold the bulk of its property to the Schuylkill Company, in which latter Company the Reading, as Mr. Gowen truly, as we believe, says, acquired a controlling interest. After this sale, the Dauphin Company's assignees (for it was in some position equivalent to liquidation) put up to public sale its trifling remaining assets, and among them its old books and papers. Mr. Bond who, no doubt, was the Secretary of the Schuylkill Company, was at the sale, and bought some lots which included the old papers, not under the orders or at the expense or for the use of the Schuylkill Company but for himself. This was twenty-two years ago. Neither he nor anybody else appears then to have treated them as of any value. Two years after, in 1861, he seems to have had a claim for £200, the nature of which we do not know, against his own Company, and he placed it in the hands of his counsel, a very eminent gentleman, then also counsel for the Philadelphia and Reading Company, to obtain payment, and then was called away to the war. On his return in 1867, six years afterwards, the letter printed above seems to have been written. Nobody thought the papers worth buying. *Mr. Bond's Board, the Directors of the Schuylkill and Susquehanna Railroad Company, through their President, had full knowledge of the purchase of the papers, and never claimed to be entitled to them or made any complaint against Mr. Bond for his conduct with respect to them.* Nobody, in fact, ever complained of his conduct in the affair till now, when materials are sought for by the expelled President of the Reading Company to blacken the character of his successor. Now let the Stockholders consider the position. The only parties who could have any ground of complaint were the three Companies. But the Reading Company could have none. Mr. Bond, until his election as President, was never in its service and was under no duty to it whatever, and it was that Company's own counsel who had charge of his claim, and was instructed to offer the papers for sale. Nor could the Dauphin Company have any just grievance, for it had itself (by its assignees) sold to him the papers in question. The only party against whom he could have offended then, must have been the Schuylkill Company. Now, as already stated, he bought the papers for himself and not for the Company: *and, (which is of itself of decisive consequence,) the Board of that Company, though they were aware of all the circumstances, and indeed must have been made aware of them by Mr. Campbell, if they had not known them before, never suggested that they had any ground of complaint.* The fact of Mr. Campbell, a gentleman of high standing, and the counsel of the Reading Railroad Company, being concerned for Mr. Bond, is of itself proof of the propriety of Mr. Bond's conduct. If the Schuylkill Board had complained, Mr. Gowen would have known all about it, and would have told us all about it. They were satisfied; and the Company under their charge was the only party who could by possibility have been wronged. Is it not monstrous for Mr. Gowen to bring forward a half told, and indeed a more than half mistold story, fourteen years after date, to blacken the character of his successful rival? We shall see presently that further arts are used by him unfairly to prejudice Mr. Bond.

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in theUnited States, we could get, at some expense, certified copies of some of the records, but they are never as good as originals. Here you have a man claiming to be President of a great Railroad Company, who 15 years ago having the title papers of the Company, of which he was Secretary, in his possession, [**this implies that the papers belonged to the Schuylkill Company, which they in fact did not,**] and having made a demand for $1,000 that was not considered right, notifies the Company that he will place those papers effectually beyond their reach if they do not comply with his request. In one letter I *believe* he said he would burn them. [**For old and worthless papers of that kind, this, after an offer of them had been made to the only persons at all likely to want them, was their natural and proper destination.**] In this other letter he says they will fetch a price, or in one letter he says so. I must do him the justice to say that he did not burn them. He was too prudent a man; he has sold them for old paper, and he got a few dollars out of them I believe. Now, that is the man. [**Mr. Gowen has thus, to calumniate his rival, charged him with unfair conduct towards employers who, with full knowledge of the facts, did not complain, and had no ground of complaint; and to make the charge more odious, has misrepresented facts in a way which the very letter he produces suffices to contradict. Now THAT is the man whom the Stockholders are asked to restore to a position of great trust.**] There is his letter, which I shall publish with the proceedings of this meeting, [**Very fortunate for Mr. Bond that it is published,**] and this is the man whom Messrs. McCalmont Brothers & Company hold up before you as the able gentleman who is to rescue this Company from its dangers. Now, *there* is one very good reason why he should not have those records, and I felt like keeping every record out of his hands if I could. [**If Mr. Bond's conduct for the last two-and-twenty years has left nothing else open to the attack of his jealous and keen-eyed rival but this, he must have preserved a character of which he may be proud.**] Another very good and sufficient reason was that I did not want the records removed from the jurisdiction of the London Stock Exchange until the final quotation was obtained for the bonds.

There are a great many things in Messrs. McCalmont Brothers & Company's paper that I have replied to already. For instance, they say I came over here to postpone the January Meeting for the purpose of preventing an expression of the sentiments of the Stockholders. [**We did not say so. Mr. Gowen on this subject cannot, and indeed dare not, be accurate. We said, p. 42 of our Circular, that we believe he came over wholly or mainly to get our proxies. We showed at p. 45, on the sworn evidence of his Secretary, that three weeks before he arrived here he had been debating with that Secretary**

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the design of throwing the meeting over. Concerning this last fact, which hopelessly destroys all his defences on the subject, he is in this speech, which professes to answer everything, discreetly silent.] Gentlemen, I have published all their letters upon that subject; I have published their own letters upon that subject. I came over here last December, intending to go back on the 25th or the 27th of the month, in time for the annual meeting. I called upon Lord Cairns, who was kind enough himself to suggest to me that I ought not to go home, that the meeting ought to be postponed, and that I should have an opportunity of bringing out the Deferred Income Bonds. He was further kind enough to write that to Mr. Hugh McCalmont. I saw Mr. Hugh McCalmont after he received the letter and he said, "We are perfectly willing to postpone it, but we cannot do so "without consulting Messrs. Kidder, Peabody & Company, and we will telegraph." He did so, and he showed me the next morning their telegram advising him not to agree to the postponement, **[and we then told Mr. Gowen that we should follow the advice, and not agree to the postponement,]** and he said, **[this is an untrue account of the conversation. See p. 43 of our Circular,]** "Now I am willing to "help you, but we cannot act against our agents' advice. Do not bring in our "names again—you get the Court to postpone the meeting. We will make no "objection, and if you can bring out the loan it will be a very good thing for the "Company." I said, "Certainly, if you do not object I will easily get a postpone-"ment, because you are the only persons to object." The request to apply to the Court came from him. **[We refer to our Circular for other inaccuracies, but we repeat here that it is untrue that we "requested" him to apply to the Court, or said we would make no objection.]** I have got it **[not "it:" something different,]** in black and white. The letters have been published. I thereupon gave up all idea of going home. I wrote to the captain of the vessel to give up my room. The last ship I could have sailed by in time to bring me to the annual meeting sailed on a Thursday, and on Friday, the next day after the ship had sailed, and after it was impossible for me to get back, on Friday for the first time, Messrs. McCalmont Brothers & Co. through their agents in Philadelphia went into Court, and objected in their own names to the Court postponing the election which they had asked me **[no, not asked]** to apply for in order to relieve them from the necessity of doing it. **[We were under no such necessity.]** Here and elsewhere, no matter what may be the penalty, I have denounced this **[that is, the deception of which he falsely accuses us,]** as one of the most infamous and dastardly tricks ever perpetrated. There is not a club in existence that would not turn a man out who was guilty of that thing. They had asked me to make the application, **[no, not "asked,"]** and they kept me here until the ship had sailed, and the day after the ship had sailed, when I could not get

there, they went into Court to oppose the very petition they had asked [had not asked] me to make, and then they have the assurance to say that I came over here to postpone the election. [Mr. Gowen here, for the second time, says that an assertion is contained in our Circular, while every Shareholder may, by reading the Circular, see with his own eyes that no such assertion is there. This will be a safe guide as to the extent to which Mr. Gowen's statements should be accepted concerning his conversation with our Mr. Hugh McCalmont on the preceding page.]

They also say that I had not the proxies, but I do not propose to reply to that. [Because there is no reply to give.] I published my list of proxies and I published in the proceedings of the Court the name of every one. I gave the name and I gave the address of some 2,200, I think it was. It was either 1,800 or 1,900, or 2,200, I forget which, but I published all those, and I had the clear majority of all the Stock, [that is, he said he had. Unfortunately for Mr. Gowen, the list when analysed disproves his assertions as to the number of votes he held. See p. 50 of our Circular.] The unfortunate thing was that the English Shareholders had not registered in time, and the shares had not been registered long enough. When I got back to America, I determined to do what I had a perfect right to do. I had a perfect right to absent myself, because the Charter of the Company says that at any special meeting no business can be transacted unless a majority of all the shares be represented. I stayed away, and the Chief Justice and two of his ablest associates said I was perfectly right, and that Mr. Bond was not elected. The four other Judges [and three in the Court below] said the special meeting must be taken as an annual one, and although there was not a majority there, Mr. Bond was declared elected, and I had to acquiesce, that is I had to give up.

I spoke very feelingly [i. e. angrily] on this subject in Philadelphia about the Judges, and I spoke very plainly, [i. e. insolently,] but I do not propose to bring over to a foreign country any charges that I may have against the officers or judges of my own. [And he therefore proceeds to do so, saying,] I will simply call your attention to this fact, that the first answer ever made in reply to my public attack upon those four Judges was made by Messrs. McCalmont Brothers & Company in this pamphlet of theirs. [Our remarks were no "answer" on behalf of the Judges, who do not need our defence, but a censure of the conduct of one who had been the Stockholders' officer and servant, and is now a candidate for restoration to that position; one which makes the holder of it responsible to them for everything he does and says about the Company's affairs.] Now, Gentlemen, suppose the case of one of Her Majesty's Courts of Justice, and suppose the case of a barrister of

considerable standing in London who had charged the Judges of the Court with making a judgment that was not in accordance with law, but actuated by other motives, do you think Her Majesty's Judges would apply to Hugh McCalmont, or Thomas Wilde Powell, or Mr. Clements to defend them from a member of their own bar. **[They certainly would not do so, any more than the eminent persons whom Mr. Gowen had maligned.]** Therefore, I can only answer to this part of Messrs. McCalmont's pamphlet that if the Judges of Pennsylvania cannot defend themselves against a member of their own bar, over whom they have control, it ill beomes a British Merchant, or a British Solicitor, or a British Stockbroker to come forward and take their parts. **[We do not "take their parts." The supreme Judges of Pennsylvania have, we do not doubt, abundant means of punishing misconduct, if their contempt for what Mr. Gowen may say, and consciousness of their character being beyond the reach of his attacks, does not, as it likely enough may, lead them to treat him with neglect. But we want to "take the Stockholders' part," by preventing the restoration to power of one whose conduct towards all constituted authorities would be a discredit to the Company, even if it were not a danger.]**

Now, Gentlemen, there is another thing I want to call your attention to. On page 55 of McCalmont Brothers & Company's Circular there is a distinct charge that I have advised people to register their shares, to give me their proxies, and then to sell. Now, there are some things which human nature can hardly bear. I have always admired the common sense statement of the German priest or clergyman who walked at the head of the parish flock through the fields, in order to pray for a bountiful harvest; and he came to one field and turned away in disgust and said: "Here prayers will have no avail; this wants manure." Now, as far as I have gone over what Messrs. McCalmont Brothers & Company have said, I reply to some of their statements by saying, in the language of one of your great satirists, "they said the thing which was not." To others I could say that they were guilty of the *suppressio veri* and the *suggestio falsi*, but when I come to charges like these, the Latin language fails me, and I must turn to the Saxon vernacular, for there is nothing but plain Anglo-Saxon that will plainly characterise what we call in America, "a good square lie." **[Elegant epithets of this kind are Mr. Gowen's habitual weapons when arguments and rational discourse fail him. If the Stockholders will look at the page he quotes, they will find that in the place of the "distinct charge," which Mr. Gowen's inflamed mind saw there, a careful and justifiable statement is made that in his speech of the 4th February he had gone "dangerously "near" making the suggestion, and we gave in a note his**

own words to support and explain what we had said. If the Stockholders will read for themselves, they will see on which side the "goodness" and "squareness" is.] Now, remember this charge was made by those who, at the last meeting, presented a proxy of E. L. Heseltine for 55,000 shares, when Mr. Heseltine did not own a share as far as I could find out, and when he himself certified that he held 50 at the meeting he attended. **[Mr. Gowen persists in misrepresenting with an obstinacy and uniformity really marvellous. It was not we who presented a proxy from Mr. E. L. Heseltine at all, but the gentleman to whom he had given it: the proxy, as we are informed, was sent with instructions of the most entire propriety, which were strictly observed: it was not voted on or offered to be voted on; and we have every reason for thinking, though we really cannot properly be called upon by Mr. Gowen to discuss the question, that he is mistaken concerning Mr. Heseltine's holding.]**

Another thing is, Gentlemen, that they say I am arrogant. I do not like to bother you about that. They say on account of my natural arrogance of temper I am unfit for the post. Mr. Powell came over to Philadelphia and said "Mr. "Gowen, did'nt you steal something,, and have you not been guilty of jobbery?" and I replied indignantly, and then he says "Did you ever see such an arrogant "man," and they publish a pamphlet in which they say I have been guilty of falsehood and prevarication, and when I indignantly reply they say I am arrogant. What do you think of it, Gentlemen? If they propose to find a man to manage a great property like this who will submit to be called a thief and a liar, they may come to Mr. Bond if they want, but I will take no such post. There is one thing I have learned in years of adversity and trial, that if a man preserves his own self-respect, he can care but little for the opinions of the world. I do not propose to forfeit that, and when a man asks me this question, am I to submit?

"Shall I bend low, and in a bondsman's key,
"With bated breath and whispering humbleness,
"Say this,

"No Messrs. McCalmont, I do not think I lied to that extent. No, Mr. "Powell, I did not intend to do anything of that kind, you are mistaken. I "hope you will forgive me, and I won't do it again." If they want that kind of fellow for President they will get a man who will not care what they do, because he will be pretty sure to be pretty guilty, and will not be worth anything. **[Evasion as usual. See Note 25.]**

NOTE 25.—Mr. Gowen pretends that what we pointed out was merely his violent language in answer to Mr. Powell's letter of the 11th November, 1880, and to our published letters. It is not so. Mr. Harris, a man of science and ability, makes a calm but unpalatable report. Mr.

Another thing is, they say I am a good criminal lawyer. It is not a very proper thing in America to call a member of the bar a criminal lawyer. It is not considered so good as it is considered in this country. I did once conduct a criminal case which helped Messrs. McCalmont very much. For three years in my country I took my life in my hands and went into these coal regions and cleared them of one of the most infamous associations that ever existed. [**We have admitted this ungrudgingly at p. 22 of our Circular. It is the one good service he has done the Company.**] I was forced to go into the Criminal Court myself. I had to do it in order to protect Messrs. McCalmont Brothers & Company's property by it, and all they have to say to me for the services which I have rendered them is the smart reply of their pettifogging lawyer, that I was a pretty good criminal lawyer. "Cursed "be their anger for it was fierce, and their wrath for it was hard," and I have a right to stand up here and protest against treatment like that. They blame me because I have made speeches. They say I am guilty of the power of persuasive speech. Good heavens, am I to model my language upon theirs; to come over here and take lessons in rhetoric from Hugh McCalmont, and to sit in the school of elocution at the feet of Thomas Wilde Powell? I cannot help it, I am as I was made.

Now, Gentlemen, I have done for Messrs. McCalmont Brothers & Company more in the last year than I can do for myself all my life. I came over here about a year ago, and I found they were sinking under water from following the evil advice of bad counsellors. The shares were down to about $13: [**as the consequence of Mr. Gowen's management:**] it was said there must be a foreclosure or there must be an assessment. I struggled against both. I held on with a firm tenacity of purpose, and the shares to-day are worth $35, and if Messrs. McCalmont had let them alone they would have been worth par. [**See Note 26,**] and the answer I get to all this is abuse and outrage. [**Mr. Gowen to talk of "abuse and outrage!"**] I remember some years ago, at a wharf in Philadelphia, a little boy standing too near the edge fell in and was in danger of drowning, when a good humoured big German jumped into the water after him and caught him; but unfortunately the boy got his arms around

Gowen condemns it on his own sole authority, misrepresents it to a Philadelphia audience, tells them Mr. Harris does not know what he is talking about, and that the report is "preposterously absurd." He again misrepresents it in this speech, and says that whoever approves it is "a fit subject for a lunatic asylum." Judges of the highest eminence decide against him, and he tells some of them that they are acting under the influence of a rival Company, and others that their opinion is contrary to common sense, and that no lawyer who values his reputation would sign it. Every one who opposes him, no matter what his standing or character, is a fool or a knave, or both. We are entitled to denounce this as arrogance, and think that the term will be heartily approved in his own city.

NOTE. 26.—We were just as unwilling as anybody that there should be either a foreclosure or an assessment, which latter, indeed, is, in the strict sense, impossible. An indirect assessment is effected by Mr. Gowen's Deferred Bond scheme, and must be by any other scheme for reconstruction. The rise in the value of the shares is due, not to Mr. Gowen's struggle for power, but mainly to the improved condition of business generally, and, next to that, as we have shewn at p. 62 of our Circular, to his *not* having, any longer, supreme command.

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him, and he had to give him a violent kick in order to release himself, and clutched him by the hair of his head, and saved him. The moment the little fellow got the water out of his stomach and the air into his lungs, he said, "Now you great "big Dutchman, you kick me again if you dare." Now in my efforts to save [!] McCalmont & Company when I came over here I had to use some pretty strong language to them. I had to talk to Hugh McCalmont like a father, and he has never forgiven me, and for that he has persecuted me and involved me in all this trouble and difficulty.

Now I want to call your attention to one thing more. I have taken up too much of your time already, but I am coming to the real point of the case. What is it the duty of the officers of the Company to do? Is it to look back over the past, and to find fault with this and pick at that, or is it not manfully to turn to the present and rescue the Company from its dangers? **[All sound judgment of the present is based on the experience of the past. When experience has shewn Mr. Gowen to be an incapable, untrustworthy and mischievous President, the first duty is to exclude him from the Presidency, and the second to apply to the Court to dismiss him from the Receivership.]** What have they done towards doing that? I have adopted a plan that was on the eve of great success. **[See Anglo-French Union Bank history, pp. 5—19 of our Circular.]** Everybody must admit now that it would have been successful, but for the opposition of McCalmont Brothers & Company. What did they do? They have turned round and have put Mr. Bond into the presidency. **[Which Mr. Gowen resisted till June last, and said we should never accomplish.]** Well, Mr. Bond went there. He has not been of much use either to himself or anybody else, **[though in the short time he has been in office he has learned the position of the Company, devised a good plan, and made some progress towards obtaining its acceptance. The agitation kept up by Mr. Gowen checks further progress till after the election,]** but he has tried to do something; and with what might almost be called a fiendish malignity, if I could use such an expression to characterise a friend of mine, the officer of the Company who gave him a room in the offices, selected a room between the treasury on the one side and the paymaster's office on the other, and if they leave both doors ajar he and his Board can see the money coming in on one side and going out on the other, and they cannot touch a penny. The Board are in a very ugly position. They have to do something to show that they are earning their salaries. Perhaps he thought that he was the Captain, and possibly he was, but I happen to be first mate of this ship anyhow. I remember hearing of an American schooner that was beating up one of the broad rivers of New England with the mate on the look out forward and the captain at the helm, and the mate came back to the captain and said "Unless you turn your helm hard aport you will go ashore on

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"the flats." The captain said, "I am the captain of the ship, will you walk "forward and attend to your part of the ship, and I'll attend to mine." The mate walked forward and let go the anchor, and then he went back to the Captain and said "Captain, my part of the ship is at anchor." Now when Mr. Bond thought he was the Captain of this boat and tried to run this ship on the flats of assessment [**a thing he never did try**] I let go the anchor, and I have held him there, and he has not done anything since, and there he sticks like a strong ass crouching down between two burdens; and he sees the rest is good, and the land is pleasant, but beyond that he is not able to do anything.

He did try to do something. He issued a plan. Now I want to call your attention to this, Gentlemen. **[Here begins a description of Mr. Bond's plan and its effects, which description ought of itself to destroy for ever Mr. Gowen's character for finance. We give a very short statement of some of its principal points below, which Stockholders should read before going further. Note 27.]** He issued a plan in which he proposed to issue $13,000,000 of new shares as a bonus; and I took them severely to task for the fact that, if they did that, McCalmonts who owned a third of the bonds, would get rather more new stock than they would lose on the old: and I am now told by both Messrs. McCalmont Brothers & Company and Mr. Bond, that none of us understood his plan; **[that Mr. Gowen did not understand his plan. We have no**

NOTE 27.—Mr. Bond proposed in his plan of August last (p. 15) to increase the Stock by $13,000,000, which he said was practically a reduction of the present Stockholders' interest by an indirect assessment equal to $12·50 per share. This is substantially correct; but it would have been more verbally precise to say that to raise money by such an issue, and apply it in paying off the debts created by Mr. Gowen, would be a recognition of the assessment which that gentleman's management has already levied indirectly on the Stockholders to that amount per share. Mr. Gowen, in this speech, flounders into the blunder that Mr. Bond's scheme involves giving the $13,000,000 of shares for nothing. It involves nothing of the kind. By that plan, the $13,000,000 will be issued against receipt by the Company of the full amount of it *at par*, either by cancelment of existing debts, or by receiving cash, and with that cash paying the debts. Mr. Bond stated expressly that the Stock was to be used *at par*. The end of it would be that the Company would have issued so much more stock, and all the money raised would have gone in payment of debts; which, to any one who can understand such matters, is an indirect assessment. It comes to something not very different from making a call (if a call could be made,) and paying the debts with it. This is one little lesson for Mr. Gowen. Now for a second. Part of the $13,000,000 was to be used at par in extinguishing an equal amount of debt which would be left after part had been paid in bonds. But this, at the outside, would only require $4,500,000 of Stock. Any Shareholder can see this for himself, at p. 35 of Mr. Bond's recent pamphlet. We are not so incensed at Mr. Gowen's misstatements on the foregoing points as on some others, for we believe his mind is so constituted that in a complicated financial plan he loses himself. But now come some misstatements of his which have not this excuse. He pretends that our calculation of our loss at p. 65 of our Circular differs from that of Mr. Bond's at p. 36 of his Address. Even after our numerous discoveries of Mr. Gowen's obstinate blindness this surprises us. *We made our calculation on his figures*, as the Stockholders can see. He had said that other Stockholders would lose $13 a share. We said, "*If*" they would, then we should lose the sum we there state. And we wound up the calculation by saying that our loss would be *at least* so much. We knew it would be much more, but preferred to argue on Mr. Gowen's figures.

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doubt every one else did;] that they did not intend to issue these new shares as a bonus. [Certainly not; Mr. Bond always said "at par."] He says so himself. He says that it was not understood, and that he did not intend to issue so much [not any] as a bonus. But I have to ask you to turn to his original pamphlet, page 15, and there you will see "This would be practically an equitable "reduction of the Shareholders' interest in the property by an indirect assessment equal "to $12·50 per share." How they could issue any share capital that was equal to an assessment of $12·50 a share, without issuing $13,000,000 for nothing I cannot make out: [Then Mr. Gowen must be financially incompetent. See the explanation in Note 27, which we are sure other Stockholders will understand.] If they intended to issue only two or three millions of dollars, then that would not be anything like $12·50 a share. [Of course not, but Mr. Bond means, in all, to issue up to about $13,000,000.] He said in his statement that it would be equivalent to an assessment of $12·50 per share. [It will be equal to at least that.] He says now that was not understood. [by Mr. Gowen.] In his pamphlet issued the other day, he says that McCalmonts by this transaction would lose $3,500,000, and in McCalmont's pamphlet, issued on the other side of the ocean at the same time, when there was no opportunity of comparing the two, McCalmonts say their loss will be $2,300,000, [we said "at least," and that, reckoning on Mr. Gowen's figures, not our own,] and therefore it is pretty evident that if we [if Mr. Gowen] did not understand what Mr. Bond intended to do, neither he nor Mr. McCalmont understood it either, [we both understood it,] for both differ about it, [no,] and if the President of a Railway Company cannot make a plan which he and his principal Shareholders can understand, [they do understand,] and if they cannot agree within $1,200,000 on the transaction of one single interest, [they do not disagree,] I think he has made it plain enough to demonstrate the fact [to Mr. Gowen's distracted mind] that he is not fitted for the post he occupies.

But in this pamphlet of Mr. Bond, the first pamphlet threatening the assessment of $12½ a share, he also attacks the credit of the Company, he attacks the locomotives, he attacks the plant. He says the line is fallen out of repair, but I am told [!] he has never even been over it. He says that a man named Sickels went over the road. I have made diligent enquiry from the superintendents and engineers, and none of them ever saw Mr. Sickels. [Mr. Sickels was for three years the Chief Engineer and General Superintendent of the Union Pacific Railway. He may not be personally known to the officers of whom Mr. Gowen enquired.] It would take an hour to reply to these charges; but I will simply say this, that the Reading Railroad is in as good condition as any line in the country. It has the largest tonnage in America. It carries more passengers than any other railway. It runs express trains between two great cities, at the rate of 60 miles an hour, with a regularity which is almost

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marvellous, and this is a line with a business of 15,000,000 of tons a year, and 10,000,000 of passengers, and doing a business of $30,000,000 to $35,000,000, and that it should be charged with being allowed to get out of repair is simply monstrous and ridiculous. [**Not if it is the fact.**] It is not so. [**Here we have, over again, Mr. Gowen's word against that of every body else. He is his own universal witness, jury, and judge.**] It is an insult to the Shareholders to ask them to believe it, [**not if it is the fact,**] and a tenfold greater insult to the staff of gentlemen who are now connected with it, and who have been from twenty to thirty years its managers, and who have taken a commendable pride in its prosperity, and in the manner in which it is managed as a physical organisation of transport. [**Not at all. If the holders of the lawful majority of the stock can hardly control Mr. Gowen, how could his own subordinates prevent him from starving the Railway in pursuit of his mad schemes?**]

But, Gentlemen, Mr. Bond had to do something. The public were looking at him. He had been there for some months. He threatened an assessment. Well, that did not take. He had to do something to show that he was a railroad man, and that he could leave his impress upon this Company. Now, if you will pardon me, I will tell you a little story, which perhaps will save a little time and prevent me going into a statement which may take a long time to explain. You have possibly heard of three or four men being cast away in a boat, and they were very bad people, and they were in danger of being drowned, and they could see nothing to save them, and at last for the first time in their lives they thought they might do something to invoke the protection of that Great Power they had not heretofore appealed to, and the men asked each other if they could say a prayer. No, no one had ever done it. "Can't you sing a "hymn?" "No, I can't do anything of the kind." At last one of them said, "if "we cannot do anything else, we can take up a collection." They had to do something, and Mr. Bond had to do something; and therefore, not being able to reduce the fixed charges of the Company, and not being able to do anything, he passes a resolution, a copy of which is embraced in the letter which Mr. Bond's Secretary sent to us Receivers.

"Philadelphia, August 5th, 1881.

"Messrs. Edwin M. Lewis, F. B. Gowen, S. A. Caldwell, Receivers, Philadelphia "and Reading Railroad Company.

"Gentlemen, By direction of the Board of Managers of the Philadelphia "and Reading Railroad Company, I transmit herewith copy of the following "resolutions passed by a vote of the Board, held August 3rd, 1881. 'Resolved "'that the salary of the President of the Company be fixed at the rate of $20,000 "'per annum, to date from the date of his election, March 14th, 1881; also "'resolved that the Secretary be instructed to send to the Receivers a certified

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"'copy of this resolution, with a request that the name of Frank S. Bond, "'President, be placed upon the rolls of the Company.'"

"EDGAR L. KINSLEY, Secretary."

[The salary voted for Mr. Bond was the same as, or less than, that formerly voted to Mr. Gowen.]

He had to do something; he was determined to leave his mark on this Company to show he had been there. If he did not, after the next election there would be nothing left to indicate that such a man had ever filled the position; and probably the place in the portrait gallery of the Presidents would have been vacant where Mr. Bond ought to be. His face would have been out of sight. He had to do something. Now, he could not reduce the fixed charges, and he determined to increase them. That he could do. He added $20,000 a year to the expenses. And he has not got a penny of it yet. The receivers declined to pay it. We do not think he is worth the money. We thought he would have been dear at half-price. He has not got a penny, but he has left on the records of the Company a resolution of its legally authorised board giving him $20,000 a year; and he has got possession of some of the records, and if he adopts the same principle which he did seventeen years ago he will get the $20,000, or we shall not get the records. **[Mr. Gowen to the life. A deliberate insult to an opponent, grounded on a serious misrepresentation of facts.]** Now that is one thing. What, then, is left for you? I have a plan that will take this Company out of trouble. Gentlemen, transpose the places of Mr. Bond and myself for one moment. Do you suppose that if Mr. Bond was Receiver of this Company and I was President, earning $10,300,000 a year, with ability to reduce the fixed charges below $8,000,000, do you suppose that I would not have the whole of the Receivers out of the office in six weeks. **[Mr. Gowen would in the supposed case make much more noise and do much less work. There is nothing he does not boast he will do.]** Why does he not take it out of my hands? That is what I want him to do. They want him to earn his money. Why should he sit there and do no work? There is one duty incumbent upon the President of a Company, which is in the hands of Receivers, and that is to take it out of their hands. I am the Receiver. **[The show Receiver, spending half his time in Europe, while his more business-like colleagues do the work. We trust that as soon as the Stockholders shall have renewed their confidence in Mr. Bond at the next election, the wisdom of the Circuit Court may relieve this Company from Mr. Gowen as Receiver.]** If they want to get rid of me, why do not they get the money and pay the debts and take it out of my hands? and then at the election they can say "see what we have done, we have got this thing out "of the hands of the Receivers." That is what they ought to do. Have

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they done it? In all these voluminous pamphlets they have issued within the last month, do they say a single thing as to how they are going to get it out? [**Yes, a good deal, to people who can read and understand. See pp. 32-36 of Mr. Bond's Pamphlet, and 63-66 of our Circular. But those who, like Mr. Gowen, have eyes that see not, can find nothing.**] Not a single thing. Do they tell you they are going to help you? No; on the contrary, Messrs. McCalmonts reiterate the fact that some sacrifice upon the part of the Shareholders is still necessary: [**and so does Mr. Gowen; for he presses his Deferred Bond Scheme; which, especially as he now wants to alter it, would be a greater sacrifice than any Mr. Bond has proposed. See p. 35 of Mr. Bond's Address.**]

They say, Gentlemen, that their large holding is so great that it is an affront to common sense to suppose that they do not *want* to help the Company. [**Certainly.**] They are only one, [**our supporters are more numerous than Mr. Gowen supposes,**] but I have 2,200 persons on my side, and although they may be poorer than McCalmonts I think they are equally interested in the matter. [**Mr. Gowen has not got 2,200 lawful voters on his side, nor anything like that number, and never had. As to the real nature of his support see Note 28.**] Is Mr. Hugh McCalmont right and are you all wrong? Is it not more probable that the 2,200 opposed to him are right? The fact that he has a large holding does not confer upon him any greater intelligence than the man may have who happens to have less. [**We are ready to leave the relative soundness of our reasonings and those of Mr. Gowen to be determined by a comparison of our publications.**] It is a question of intelligence, not of wealth. A man may be so stupid as to do more harm than a knave, and I would rather deal with a knave than with a fool. You have some means of determining what a knave will do; but Heaven help you when you have to contend with stupidity. Who can tell where it will end?

Then, Gentlemen, who else is on my side? I want to call your attention to this. Who are the great railroad men in America at this day? I say the two ablest and the two best railroad men in America, men of more capacity than

NOTE 28.—The real number of lawfully qualified voters who gave Mr. Gowen their proxies for the election of March last was, according to his own list, not more than about 1400. Of those, the larger number were small holders, many of them having only ten or five shares, and some less, and, through their position in life or distance from sources of information, quite incompetent to judge for themselves whom to support. Then, too, many were dazzled by the apparent success of the Deferred Bond issue, or induced, by motives altogether independent of the welfare of the Company, to support Mr. Gowen's financial schemes. There is probably not another Shareholder in this country who has access to so much information as we have, and although, when we remember how long Mr. Gowen's plausibility and self-confidence imposed upon ourselves, we ought not to blame those whom he still deludes, their opinions must be not numbered but weighed: and we are satisfied that in the end they will find that they are in error.

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Messrs. McCalmont, men who have been the most successful, are John W. Garrett, of the Baltimore and Ohio Railroad and W. H. Vanderbilt of the New York Central Railroad. Both those gentlemen are my warm advocates. [**We believe Mr. Gowen's pretence of having their support is entirely unfounded. See Note 29.**] Mr. Garrett has written on the subject over and over again, [**we have explained this in the Note,**] and he took the trouble to call upon Mr. McCalmont and spent an hour or two with him expostulating with him upon his conduct. [**Mr. Garrett did not call upon us. Our Mr. Hugh McCalmont, as a mark of respect, called on him at his hotel. In the half hour or more of friendly talk which followed they both expressed their common regret at the condition of the affairs of the Railroad Company, (a feeling we have had throughout) but we do not think Mr. Garrett would consider that he ever said anything approaching expostulation, and Mr. Hugh McCalmont certainly did not understand him to do so.**] Mr. Vanderbilt has not only taken a decided step, but he was kind enough to say to me last July, "About how many shares will it take to buy "to make your election safe?" I told him, and he said: "Give yourself no

NOTE 29.—Since Mr. Gowen has mentioned the names of these two eminent men, we are relieved from any hesitation in doing so. Mr. John W. Garrett is a gentleman for whom we have the highest respect. He is one of the ablest and most successful Railway Presidents in the United States. Many years ago, as we have heard, there was a talk about his being President of the Philadelphia and Reading Railroad, and we are sure that, if it had had the benefit of his direction, its position to day would have been very different. We are not aware that he is a Stockholder in this Company. We shall be glad if he is, for we know he will understand the case, and we should hope, therefore, for his support. Some months ago, Mr. Gowen, for a time, attracted his attention by the clamour about Mr. Bond being in the interest of the Pennsylvania Company, but we should trust that Mr. Garrett is now satisfied of the worthlessness of this fiction. We hope that under the new management he will find the Philadelphia and Reading Railroad Company to be an honourable, efficient and friendly neighbour, with whom he can work in harmony. We have the greatest respect also for Mr. W. H. Vanderbilt, a name long known as one of the most important of the American Railroad powers. He holds, as we are informed, about 40,000 shares in this Company, a fact which we welcome, as substituting one large and well-informed holder for a fluctuating body of comparatively small ones. His interest in the Railroad deserves great respect, and, even apart from that, we should hope to see the relations between his Railroad, (the New York Central,) and that with which we are concerned, the most friendly possible. We totally disbelieve the statement that he has been induced to follow in Mr. Gowen's train and support Mr. Gowen's designs, and we hope that at the election his vote may be given for President Bond. We spoke of Mr. Vanderbilt, (though we did not think ourselves justified in naming him,) at the foot of p. 66 of our Circular, in terms expressive of our respect for him, and we never confounded him with the new confederates of Mr. Gowen in his raid upon the Company, whom we expressly declared to be unknown, while Mr. Vanderbilt is perfectly well known. Mr. Gowen, by Mr. Cave his supporter, clumsily tried to confuse what we had said, but how contrary his representation is to our Circular the Stockholders can see for themselves.

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"uneasiness; that much I will buy anyhow;" and I am glad to be able to tell you that when I went back the last time he said that he had done a great deal more for me than he promised. **[We repeat our disbelief of Mr. Vanderbilt being one of Mr. Gowen's supporters.]** Now, Mr. Vanderbilt and Mr. Garrett are our allies, and they are the two great Presidents of the two lines which are feeding the Philadelphia and Reading Line. The Pennsylvania Railroad we want to have nothing to do with. They have a line from Columbia through Pennsylvania to Harrisburg. If you will look on the map you will see that on all sides, where our northern and western termini are, except in our coal region, the Pennsylvania Line is a rival line; and therefore I disregard the Pennsylvania line. It is our rival. We can hope for nothing from the west through them. But neither Mr. Vanderbilt nor Mr. Garrett has any line which can come in competition with ours, and I believe Mr. Garrett has in prospect the making of a road from Baltimore that shall come up and communicate with us below Philadelphia, and Mr. Vanderbilt has told me that he is going to furnish the money to make a line to communicate his system with us at Williamsport. **[We shall be glad to hear of both these things being done.]** These two great railroads will then be contributing to our tonnage, and we shall be able to send our coal into the western markets of America, so that they can take almost an unlimited quantity. That is the position of those two gentlemen. who are my warm advocates. I have said, at a former meeting, when I was here, that I had offered two propositions to McCalmont Brothers & Company, to settle this controversy, and I am sure that the shareholders will say, looking over all this field of discussion and recrimination, "A plague on both your houses." We want peace. Well, I have held out the olive branch. I have offered to withdraw. **[If he really and unconditionally withdrew there would be peace, but what he wants is to rule the Railroad from his retirement.]** I was here a few weeks ago, and I left a proposition open for three weeks, that if McCalmont Brothers & Company would adopt my financial plans for the relief of the Company, I would resign at once *if Mr. Bond would resign;* [!] that I would select three, and they should select three, or that I would take out ten officers of the Company, who have been there for many years, and McCalmont Brothers & Company could select any one of the ten for President. **[Mr. Gowen has no title whatever to interfere; and we ask the Stockholders to concur with us in not tolerating it.]** I have not any personal interest to gratify in continuing the discussions. If it was not for the personal attacks upon my character I would have been ready to-day to say "If Mr. "Bond will withdraw I will withdraw, and I will let Mr. Vanderbilt and "Mr. Garrett themselves select the ticket to be voted at the next election." I will do anything to put the management of the Company in the hands of those who will look to its interests and protect the Shareholders, but I cannot,

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Gentlemen, contemplate, without a shudder, the prospect of allowing it to be handed over to the management of Mr. Bond. I cannot out of a sense of self-respect, and a sense of what is due to myself, individually, consent to retire at a time when, for the first time I may say in the history of a life which, if it has not been very long, has been filled with very many events, for the first time in the history of that life I have been charged with falsehood, charged with misrepresentations, and charged with such offences as, if they were true, [**and we have proved them to be true,**] I would be no more fitted to stand before you here than I would be to offer myself as a candidate for a position in the hierarchy of the church. Now I have done. There is a great deal more that I might reply to, but it would extend the discussion beyond the limits even of your patience, great as it has been. I might exonerate Messrs. McCalmont Brothers & Company from any kind of wrong, but that of stupidity. I might show that those who have surrounded them have given them bad advice, but I do stand here before you now to vindicate my personal character from the aspersions that have been cast upon it. [**And proved.**] Almost a stranger to many of you, in a strange country, I appeal to your sense of justice to stamp down, as infamous, [**the question is whether our statements are true,**] this recent attack which has been made upon me.

I have made my answer to the Circular of Messrs. McCalmont Brothers & Company: and now, Gentlemen, let me ask you to answer for me and make yours: and if you do not know in what terms that answer should be couched, let me give to you, and commend to you for its terseness, the form of a letter received the day before yesterday by a friend of mine in London, which read to this effect: "My dear Sir, I have just finished the reading of the Circular of "Messrs. McCalmont Brothers & Company, and herewith enclose my proxy in "favour of Mr. Gowen." [**Evidently one of the "association of "gentlemen" who are Mr. Gowen's thick and thin supporters.**]

The CHAIRMAN: Gentlemen: At the earlier part of the meeting Mr. Gowen said that he would be happy to answer any questions that any persons present wished to be put to him. Now is the time at which such questions should be put.

Mr. THOMAS CAVE: [**We have never before heard of this gentleman in connection with this Company. We do not find him on the Register of Shareholders, and from his silence as to his interest in the Company, we may fairly infer that he has none, and we have been unable to find that he has any special knowledge qualifying him to set up as the Stockholders' friend and counsellor. It would have been better, too, if he had prepared himself for his part by a careful perusal of our Circular, instead of trusting to imperfect notes, which were as inaccurate as if they had come from the blue pencil of Mr. Gowen himself.**] My Lord

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and Gentlemen, my personal investigation into some of the matters which have been brought before us to-day must be my justification for taking a more active part in this meeting than I otherwise should have done. A resolution has just been sent to me from the table, [i.e., **from Mr. Gowen**] which I shall have the greatest pleasure in moving, but before doing so I should like to say a few practical words to a meeting which must I am sure, whilst they feel the eloquence of Mr. Gowen, and must be greatly satisfied with the able defence which he has submitted to the meeting, have at the same time felt that they are in great jeopardy in the war between the great house of McCalmonts and Mr. Gowen. Whatever satisfaction it may give to either of them, it cannot fail to give great concern, and ultimately may end in great loss to the Shareholders and Bondholders of this Company. Gentlemen, we must treat this matter as a matter of business. **[We should have been glad to hear how Mr. Cave's treatment of it can have been a matter of business to him.]**

The pamphlet of Messrs. McCalmont, which I have read with the respect which I always do anything that emanates from that house, astonishes me. I cannot believe that the principal partners of that firm can deliberately have penned the words which I find written in the pamphlet, and if they have done so my respect for them as a business house must be greatly diminished. It is quite possible for us in England, and in America too, to express ourselves in strong words without calling upon Billingsgate to supply us with words; and I must say that, while I regret the way in which Mr. Gowen has responded to some of their charges, after all, looking upon him as a strong man and with much of the animal in him, I am not altogether surprised at it. I have penned down a few of the things that Messrs. McCalmont have said. They charge him with "always using strong language," with "grasping at power," with "struggling for power," with having "bad faith in postponing the meeting," (which to my mind he has most satisfactorily explained,) with "obtaining unfair "proxies," (all of which he published,) with "intense arrogance," (they are their own words,) with "want of temper," "want of judgment" and "untrust-"worthiness": **[We defer to Mr. Cave's superior knowledge (for which we take his word) of the present speech of Billingsgate; but, if its frequenters now keep themselves to such decorous terms of censure as he has quoted, education must have made a vast improvement there upon the language of old tradition, which had greater resemblance to the elegant epithets with which Mr. Gowen's present speech, and still more some of his earlier ones were adorned:]** and they add, in language which astonishes me and pains me beyond measure: "We "have no doubt that incorrect statements" not only have been made in the past, but "will be continued and multiplied" in the future. What a monstrous charge to make against any man, that even his future is not to be free

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from suspicion. [**And yet our judgment of Mr. Gowen has been proved accurate by the very speech of which Mr. Cave had just been an admiring hearer.**] Then they go on to say and to speak with scorn of the most influential and distinguished American Shareholders. Do you scorn the name of Garrett and the name of Vanderbilt? [**Indeed we do not. If Mr. Cave had taken the trouble to read the last eight lines of p. 66 of our Circular, before misrepresenting us, he would have found us speaking of those eminent men with the respect they deserve.**] They speak of them as confederates. [**Indeed we do not. The passage about "confederates" is at p. 68. We there speak of "unknown" persons, a description which might apply to Mr. Cave himself, for example, of whom we knew nothing, not to Mr. Vanderbilt and Mr. Garrett, the former of whom we knew to be a large Stockholder, and with the latter of whom we had been on very friendly terms.**] They say that a confederacy has been entered into against the Company. I say a confederacy that Garrett and Vanderbilt have entered into with regard to this Company cannot be otherwise than favourable to its future. [**We shall be very pleased to see the Company, under Mr. Bond's management, enter into a "confederacy," favourable to its future, with Mr. Garrett and Mr. Vanderbilt, and hope it will do so.**] But is that the right way to speak of a man, and to address observations to him in a serious pamphlet like this? No, Gentlemen, this pamphlet has not been written by Messrs. McCalmont. It must have been written by some inferior mind. It must have been written by some man knowing more of litigation than business, knowing more of hard words than how to conciliate and produce prosperity in the Company. The pamphlet charges Mr. Gowen with making a raid with unknown confederates, and with unknown designs upon your interests. Are the names of Garrett & Vanderbilt, and such names as those unknown! [**No, but the names of Mr. Gowen's confederates are. That Mr. Gowen has reduced Mr. Garrett and Mr. Vanderbilt to the condition of auxiliaries in his fight we firmly disbelieve.**] They say that Mr. Gowen will never give an answer to this pamphlet or answer these questions at the meeting. I say whether he has or has not you shall be the judges. [**We wish the registered Stockholders to be the judges, not the audience at Mr. Gowen's afternoon entertainments.**] But, above all, they wind up their pamphlet with these words. After charging Mr. Gowen with every weakness and incapacity that can be penned in the English language, they go on: "We do not exclusively "rest our judgment that Mr. Gowen is unfit for the management of a railroad "upon any particular case or cases of fault upon his part. Fitness or un-

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"fitness is the collective result of the whole character and conduct." After charging him with individual and separate charges of every description, whether they found they could not sustain them I do not know, [**we think we have more than sustained them,**] but they wind up by making a charge in the illogical words I have just read, [**Mr. Cave's idea of logic is very peculiar. How can it be illogical to say of any man that we judge of his character not by isolated acts, but by his whole conduct?**] and they say they will use their utmost strength to prevent his election. At least they are candid in what they say, and we know now what we have before us.

Now, let me look for a moment at Messrs. McCalmont's conduct in the past. I shall use no language towards that honourable house which I would not use towards any house in the same position, because I have learned for many years in the Chamber where I have sat that that should not be done, and nothing shall induce me to pass the bounds of that good regulation. The pamphlet says "For eleven years Mr. Gowen managed the Company without "control." I read such statements, my Lord, with astonishment, that Messrs. McCalmont, a business house of vast capital, governing hundreds in England and many other places—how they can say of a man who for eleven long years has managed this Company, that he has done what he liked with it—how they can say that, I do not know, but it seems to me that they have entirely forgotten their duty to themselves and us. Let us go back to 1869 when Mr. Gowen joined the Company and became president, and think that for all these years he has had their confidence, and how they trusted him for that time. They approved his bold policy by acquiescing in the purchase of the coal lands. They approved the ship building. They approved his retailing the coals, and making arrangements for it. They approved all the financial schemes, [**Mr. Cave somewhat overstates our approval of particular acts. But let that pass. The instances he cites show that we spoke truly in saying that Mr. Gowen was permitted to do as he liked. He had our confidence, which we do not give by halves. In our Circular of February, 1877, we expressed our doubts; they were increased up to the summer of 1880; and the events since then have converted them into absolute certainty of his utter unfitness,**] and when do they desert him? When he comes to England and refuses to obey one of their behests. [**If Mr. Cave had thought it worth while, before talking thus, to read our Circular with care, he would have seen that the first step was the request to resign the Receivership addressed to Mr. Gowen by letter by the Committee of Bondholders (p. 39.) which was in August, 1880: the second step, (on his refusal to resign,) our intimating that we should not give him our proxies**

in November, 1880, (p. 41.) and the third, our announcement on his first visit to our office on the 20th December, 1880, (without giving him any "behests,") that we should vote against him. We "deserted," or to speak properly, we decided to oppose him, when after long and careful consideration we became thoroughly convinced of his unfitness.] That is the time they change their minds, and they expected to find that a strong man who for years had governed this mighty Company—they expected in a moment he would knuckle down and do what he was bid, and because he has not done that they withdraw their proxies and their confidence, **[This is Mr. Cave's fancy picture. The facts, of which he seems in happy ignorance, are those just stated]** and they turn upon him and abuse him **[Mr. Gowen's friend and ally talk of our abusing!]** as if he had not for eleven long years enjoyed their absolute confidence. **[Because, having had our confidence for a great part of eleven years, we found him utterly unworthy of it.]** Is not that the worst treatment that he could have met with at the hands of Messrs. McCalmont?

But what are the alternatives that McCalmonts propose to us? They say now "There are but two men and you must have one. You shall not have "Gowen. You cannot have him. We are strong enough to prevent it, and we "will do it, and we will use all our powers and all our proxies, and you "must have Bond." **[We hope that our fellow Stockholders will enable us to effect this.]** Well, if they are strong enough, perhaps they will carry that, and it becomes us carefully to see who this Mr. Bond is. I am not going to attack Mr. Bond in an unfair manner. **[From what source did Mr. Cave derive the materials for his indirect charges against Mr. Bond?]** He is not here, and he is probably not represented here, but he has published an important pamphlet, and he has asked us for that confidence which will keep him in the position which he now occupies. He is perfectly justified in doing so, but it becomes us to consider what his claim to our confidence is. Well, in the book a strong testimonial is given by Messrs. McCalmont to Mr. Bond. I am not going to complain of that. I have no doubt it was given in good faith, but I should like Mr. Bond or Messrs. McCalmont to tell me whether this same Mr. Bond was not the Vice-President of the Texas and Pacific Railway which in 1873 dishonoured a vast amount of bills in this country, and whether his is not the name which we find to those dishonoured bills—the very name itself. **[If Mr. Cave had read our Circular before professing to think, as he does in his speech, that Mr. Gowen had satisfactorily answered it, he would have seen (p. 59) that Mr. Bond was the gentleman who had charge of the Texas and Pacific Railroad, and that his conduct in that charge is one of his titles to confidence. We**

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believe that his name was on certain debentures (not bills) of the Company, not in his personal capacity, but as Vice-President, and that these debentures went for a time into default. Under his skilful management, the affairs of the Company were reorganized, its debts paid or satisfied, and its credit permanently re-established. We hope that the default on our Company's bonds bearing Mr. Gowen's name, may, under Mr. Bond's care, be likewise repaired. We hope, too, that Mr. Cave does not think it dishonourable, either in a Company or a man, to recover from insolvency and pay debts in full. The Stockholders now know exactly who Mr. Bond is.] Who is he? Is he the man who ordered and governed that Company, because if so it seems to me that he occupies a different position from that of claiming your confidence? I should like to know whether he was the Vice-President when that Company went to grief. **[He went into it when it was in grief, and left it when he had brought it into prosperity to come to his present position.]** If I am wrong in this suggestion I beg any gentleman on the one side of the table or on the other to set it right, because I do not want to damage an absent man, unless it is right and proper that I should do so. Was he not a party to letting the contract for the Texas and Pacific Railway to contractors at the rate of $40,000 a mile, when he knew, and the Board themselves knew, that it would not cost more than $20,000, and when the prospectus of the California and Texas Construction Company will show that that was so? Did not they make it known and show upon that prospectus that they were going to make a net profit out of the contract of $34,000,000? If that is not true, some friend of Mr. Bond's will be able to say at once that it is not. **[If there had been anything true in what Mr. Cave said it would have been confirmed by Mr. Gowen, who was sitting opposite Mr. Cave, and had shown his desire to blacken Mr. Bond, and must have known more about it than anybody in the room. As all the slanders hitherto brought against Mr. Bond have been found untrue, we have no doubt this is also.]**

If it is true, is he a person to whom we are to trust the financial arrangements of this mighty Company? I will tell you what *an American paper* said speaking of this Company; I have got their very words:—"It is an inside ring to bleed "the Company by obtaining twice as much money to build the road as the works "were worth." That is my opinion of it. **[We said above that this new ally or lieutenant of Mr. Gowen had given no proof of fitness to advise the Stockholders. Here is a proof of unfitness. Fancy any man with a sense of what proof is, and of what fairness towards an absent opponent requires, throwing charges at him upon the strength of an anonymous paragraph**

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in an un-named American newspaper!] This Mr. Bond, to whom I have ventured to refer,—and I hope I have not done him an injustice, for if I have I will do my utmost to undo anything—[then Mr. Cave should at once publicly apologize—] but, to the best of my knowledge and belief, this Mr. Bond is the identical Mr. Bond who is now before us as our President.

Then Mr. Bond was elected by only 5 per cent. of the shareholders. There was only 5 per cent. of the Shareholders present at the meeting at Philadelphia, and only 33 per cent. of the shares, including a large number of Messrs. McCalmonts. [So that Mr. Gowen would have been elected if he could have got 34 per cent. to vote for him, which, therefore, he could not get.] Mr. Gowen has said that Mr. Garrett and Mr. Vanderbilt are prepared to deal with him in the most friendly spirit [we hope they are with Mr. Bond. We believe they only look to the interests of their Railroads, and are no respecters of persons.] According to a Railway paper, or rather an evening paper of Philadelphia, which I have had an opportunity of looking at to-day, of the 25th October, they say, [that is, the un-named writer in the un-named newspaper says,] that Mr. Gowen knows well all the affairs of this Company, that the revenue of this Company, including coal, is £173 per mile, which is larger than any return from any such Company in the world except one; and Mr. Gowen, although they have attacked him in many of their articles on many points of his policy, knows well, they admit, the details of the property and the management of the affairs of the Company, and he is the best man to bring it out of the difficulties in which it is now placed. There is the man whom we have all trusted [and suffered from] in days gone by. Abraham Lincoln has said "You "should not swop horses when you are crossing a stream," [except when one has broken down under you,] and from my own experience I have found nothing so dangerous as to call in a new doctor in the midst of an illness. Nobody has attacked Mr. Gowen's personal honour. [We have said that we have no ground to charge him with putting the Company's money in his own pocket.] He may have made mistakes no doubt, but who managing such a vast Company has not done that, and at all events he has made them under the management, and with the knowledge of Messrs. McCalmonts, [We never "managed" the Company, and have some time since found out our error in tolerating Mr. Gowen's management so long,] and I say we ought not to withdraw our confidence from Mr. Gowen, [not even if he be proved, as he is, unworthy of it?] and let in a stranger of whom we do not know anything. Now in what I have said, I have not intended to say one single word against Messrs. McCalmonts or anybody else. I have only expressed the opinion which every Englishman has a right to express, [Has every Englishman a right to assume to direct the Stockholders without shewing that he

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has any interest in the Company?] but I say what we ought to bring about is an absolute and final arrangement of affairs. Messrs. McCalmont will find us **[Who is "us"? Does Mr. Cave belong to the "association of "gentlemen"? or to the "unknown confederates"?]** strong enough, backed by our American friends, to say that they shall come, whether they like it or not, and do what is best for the good of this property, **[we need no compelling to continue doing this,]** and that their personal feeling and anger and strong words shall cease, **[when the disturber of the Company is shut out,]** and that they shall consider **[as we do]** what is good for the property, because this war has been carried on, not so much at the expense of the warriors, as at the expense of the persons who support them. Happily there is one idea in which everybody seems to agree, Messrs. McCalmont Brothers & Company, and Mr. Gowen, and Mr. Bond, and everybody else; and that is, that the future prospects of the Company are sure and good. **[Yes, if Mr. Gowen is kept out.]** Mr. Gowen says that the Company have earned, after deducting all fixed charges, a dividend of 6 per cent. Messrs. McCalmont & Company acknowledge that, in all probability, even reckoning for the last period of the year being the same as it was last year, the Company will have earned 2 per cent. on the shares, and I ask is this a time to be quarrelling when it is a question whether we shall pay 2 per cent. or 6 per cent.? **[Mr. Cave must have borrowed a piece of Mr. Gowen's blue pencil, for this statement is as wild a misrepresentation of what we said as if it had come from Mr. Gowen himself. What we did say (p. 64) was that, on Mr. Gowen's own figures, the success of his financial schemes, if they had succeeded, would only have brought a dividend of 2 per cent. this year instead of 6. But as we never admitted his figures we did not admit the 2 per cent. Mr. Cave, it is plain, does not understand the question.]** I say that the time has come when we must act as reasonable and sensible men on both sides of the ocean, and act in a straightforward way and with a view to conciliation. I shall, with the feeling which I have briefly expressed to you, move most cordially this Resolution. I have not arranged with any one to second it: I shall ask some gentleman in the room to rise and do so: and I would rather that it should emanate from this side of the table, than from that. The resolution is, that "the Shareholders and Bondholders of the Phila- "delphia and Reading Railroad Company express their unabated confidence "in Mr. Gowen and his policy, and pledge themselves to use their best "endeavours to secure his re-election as President."

Mr. SPICER: I have very great pleasure in seconding that Resolution.

Mr. PERRY: I believe I am not known to any gentleman in this room, with the exception of Mr. Gowen himself. I am the person who negotiated the sale of the Montour Iron Works, and Mr. Bond's statement in regard to the value of that

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property is false *in toto.* Mr. Gowen, on the part of the Philadelphia Coal and Iron Company, paid $450,000 for that property, and if he desires to sell that property to day he can have an advance of $50,000 upon it. I believe it is one of the best in the State of Pennsylvania, and I regret that any gentleman should have charges made against him, such as have been made against Mr. Gowen, but I say that you can amply trust this Company to Mr. Gowen, and also the management of it.

The CHAIRMAN: It has been moved by Mr. Cave, and seconded by Mr. Spicer, "that the Shareholders and Bondholders of the Philadelphia and Reading Rail-"road Company express their unabated confidence in Mr. Gowen and his policy, "and pledge themselves to use their best endeavours to secure his re-election as "President." [Carried unanimously.]

The CHAIRMAN.—Gentlemen, I cannot but feel, as a personal friend, as I have the honour to be, of Mr. Gowen's, that no one can have listened to his eloquent address without feeling that he has been able triumphantly to meet the attacks which I confess I had not previously known were so personally directed against himself.

Mr. GOWEN: Gentlemen, I have to thank you, and to ask that a vote of thanks be extended to Lord Bury for his kindness in presiding at this meeting, and I feel personally probably more than you can do that it was merely done out of a sense of kindness to myself. I beg to move a vote of thanks to Lord Bury for his conduct in the Chair. [Carried unanimously.]

ONE OF THE AUDIENCE: I beg to propose a vote of thanks to Mr. Gowen. We have done so before in this room, and I hoped that it would have devolved upon somebody else rather than myself, but after the remarks he has made I feel that there is no railroad manager in the United States who has more sincerely and fully done his duty to the Railroad Company, and less endeavoured to feather his own nest than Mr. Gowen has done, and I hope you will pass a hearty vote of thanks to Mr. Gowen. [Carried unanimously.]

[Mr. Gowen has added some notes to his edition of his Speech. The only one needing remark is the following monstrous estimate, appended to the question by one of the audience, printed at page 12 of this edition.]

The question not having been again put, I can say in answer to it that if the railroad loses control of the coal-lands it will probably become a pasture field for cattle, but if it retains them, it becomes, as it has already become, the largest transporter of tonnage in the United States, *and capable of earning, as demonstrated by the result of the last four months, a dividend of* 1¼ *per cent. per month upon its share capital for every month it can work full time, assuming such fixed charges as would have resulted from my financial plans,* had they not been interfered with by Messrs. McCalmont Brothers & Co.—F.B.G.

[Of all Mr. Gowen's wild and extravagant estimates, of which

the effect can only be to mislead the Stockholders, we think this is the worst. The natural meaning of it is, that the Company could now earn a dividend of 15 per cent. per annum if Mr. Gowen's financial plans had been carried out. The Stockholders will, however, observe that this is made dependent on the last four months being a proper standard, and is confined to those months for which the railroad, in which he must include the Coal Company, "can work full time." But to assume expressly or tacitly that four of the best months in the year are a standard for the whole, or even to omit, in such an estimate, reminding the Stockholders that those months are not such a standard, is simply to construct, intentionally or not, a snare for every one that reads it. Then, too, at present and for an indefinite time to come, it is impossible to work full time continuously with profit. We have cited at p. 63 of our Circular the evidence of Mr. Lewis, one of the Receivers, that for the Coal Company to work continuously for full time is to lose money. Mr. Gowen never will see that he cannot have both quantity and good prices. If the supply of coal be increased to the Company's full producing power the price is depressed, and loss is the result. This last estimate, therefore, with which he seeks to dazzle the Stockholders, as he has done so many times before, rests upon two suppositions, both absolutely impossible; first, that the whole of his financial schemes could by any human possibility have been carried out now, and second, that the Company might indefinitely increase its supply of Coal, and yet retain the rate of profit earned on a smaller production. The best way to judge the estimate is by comparing it with the similar one made in the last report before the stoppage, quoted at p. 26 of our Circular, where, upon similar suppositions and imaginations, he promised the Stockholders a revenue for the then current year equal to 12 per cent. on the share capital: the result being a revenue not half what he had promised, and a heavy deficit from the amount required to pay the fixed charges. The estimate now put forward is an utter delusion which we hope the Stockholders will reject. A more reasonable estimate for Mr. Gowen will be found towards the bottom of p. 64 of our Circular, shewing that, if as much of his financial schemes had been carried out as were by any possibility feasible, there would have been no surplus for dividend at all.]

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[Mr. Gowen added to his edition of his speech the following supplement.]

SUPPLEMENT.

In my address I was obliged to omit a number of minor points for fear of trespassing too long upon the patience of the meeting. I now briefly refer to them.

First.—**[This and the two following questions were brought forward by Mr. Bond, and we do not know enough of the particulars to deal with them in detail.]** Referring to the charge of outside investments in coal yards, on page 17 of Mr. Bond's pamphlet, my answer is: That the retail coal yards were a necessity at the time they were opened, and were principally located upon lands owned by the Company; that there is but one of the properties, lately used for coal yard purposes, for sale; that it would be most unwise to sell the others; and, finally, that Mr. Bond has unfairly included, in his list of coal yards, the receiving stations for coal in other States at which our ships discharge their cargoes, and which are of as much importance to the Company as New York wharves are to any British Transatlantic Steamship Company.

Second.—On page 17 of Mr. Bond's pamphlet, a reference is made to what are called "coal speculations," and he disingenuously attempts to create the impression that money was lost in the transactions because some of the coal transferred from one department of the Company to another was charged to the former at a less price than it cost. Mr. Bond's figures are taken from a report made to him by an officer of the Company, which concludes with these words:—"The coal stored by the Company was sold "at these largely advanced rates during the winter of 1879–80, and realised "a considerable profit on the whole transaction."

Third.—On page 24 of Mr. Bond's pamphlet an attempt is made to show that the purchase of the coal-lands has not been justified by an increase in the coal traffic of the Company, and, while referring to the slight increase of competitive traffic he disingenuously suppresses all reference to the great increase in the entire coal tonnage, and to the fact that at periods when the total production was regulated by agreement with competitors, the local and more profitable coal tonnage of the Company increased so rapidly that it became unnecessary to depend upon competitive markets to take any large proportion of the entire output. The reference to the comparative increase of the total tonnage of the different regions is most misleading. The great increase in the tonnage of the Wyoming region was due to the fact that all the coal Companies, except the Reading, had purchased lands there and were busily engaged in expending money in their development, and, had I not succeeded in keeping them out of the Schuylkill region, there is no doubt that the

output of the Schuylkill region would have been large enough to satisfy Mr. Bond, but it is more than doubtful whether it would have been satisfactory to the Shareholders of this Company to know that other and competing lines had penetrated into the Reading territory.

Fourth.—On page 40 of Messrs. McCalmont Brothers & Company's pamphlet reference is made to my statement that I never directly or indirectly asked for their proxy, and this statement is contrasted with my telegrams as to their sending their proxies to me in America. Most unfairly Messrs. McCalmont Brothers & Company omit all reference to the fact that my statement, that I never directly nor indirectly asked for ther proxies, referred to interviews with them which took place after I came to London, and that I had myself given publicity to previous telegrams asking for proxies and explaining that I did so because I had been promised all the money necessary to relieve the Company from danger if I could give an assurance that my management would be continued. This assurance I was at that time unable to give without knowing how the English proxies would be voted. **[Here we have Mr. Gowen on ground that we do know, and he is of course wrong. If any one will look at the speeches by him from which the statements quoted in our Circular (p. 40) were taken, it will be seen that there is no limitation to the time "after he "came to London." We did notice in the footnote to that page that some other of the statements by him were so limited, but those with which we dealt were not. To now limit them by the mental reservation put forward is a sample of the disingenuous process exposed by us at p. 27 of our Circular.]**

Fifth.—**[Here we again have him on ground we know.]** Messrs. McCalmont Brothers & Company, on pages 26 and 27 of their pamphlet, complain that in speaking of their refusal to advance £100,000 to the Company to prevent its failure, I omitted all reference to heavy advances previously made by them. It is obvious that the amount of previous advances then due by the Company did not prevent Messrs. McCalmont Brothers & Company from contributing further aid, **[but it tended to it, anyhow: and the question is not whether we ought to have lent more, but whether it was honest for Mr. Gowen to say, by implication, that we would not lend any;]** and as such advances were protected by a deposit of the Company's mortgage bonds at 70 per cent., and carried interest at the rate of 7 per cent. per annum, (subsequently reduced by the Receivers to 6 per cent.,) it may be questioned whether greater advantages from the transaction did not enure to Messrs. McCalmont Brothers & Company, than to the Company, and whether their fellow Shareholders have not a greater right than Messrs. McCalmont to complain of my silence on the subject. **[We think that we and the Stockholders both have right to complain of the misrepresenta-**

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tion which had been thus made by Mr. Gowen. As to interest and security, were we to lend without either?]

Sixth.—On pages 63 and 64 of Messrs. McCalmont Brothers & Company's pamphlet, a most disingenuous attempt is made to show that 6 per cent. dividends out of the earnings of the present year could not have been paid, even if I had not been prevented last winter from carrying my financial plans into effect. They assume that the sinking funds are to remain a charge upon the income of the property, and that only $40,000,000 out of the $150,000,000 of 5 per cent. bonds could have been placed. **[Mr. Gowen assumed this too, in his earlier published statements.]** The facts are that under my plan, the sinking funds were no longer to be a charge upon income, and that while I intended to sell at once for cash $40,000,000 of 5 per cent. bonds, the entire issue was to be $150,000,000, of which fully $100,000,000 (including the $40,000,000) could have been issued. **[When? now, or many years hence?]** The proper figures, therefore would be these:—

Present fixed charges		$10,700,000
Deduct—Saving in Sinking Funds ...	$600,000	
„ by Deferred Bonds ...	600,000	
„ by issue of $100,000,000 5 per cent. bonds ...	1,500,000	
		2,700,000
Reduced fixed charges		8,000,000
Estimated net earnings this year, say		10,300,000
Dividend Fund		2,300,000
Amount required for 6 per cent. Dividend		2,056,680
Surplus		$243,320

[All this dreaming, for it is nothing more, depends on the imagination that it would have been any how possible to issue the whole $100,000,000 this year. It is demonstrably impossible, and Mr. Gowen has never attempted to shew, except by vague guesses and surmises, that it would be possible to deal in this way, at present, with more than $40,000,000 of the existing debt. We think it impossible even for that amount. Note 30.]

NOTE 30.—To issue $100,000,000 of 5 per cent. Bonds it would be necessary either to persuade the holders of enormous amounts of securities now bearing a higher interest to consent to be paid off, for they cannot be compelled, or to buy them up in the market. But the process of buying would raise the prices of all of them to a point which would defeat the scheme. In the prospectus of 4th January Mr. Gowen only proposed $20,000,000 as the amount which "can be issued." In the statement of 1st February he says that $40,000,000 "can now be "issued" to effect certain conversions, which he names, and only talks of then issuing an additional $10,000,000, the proceeds to be kept in hand to make purchases (a step which would certainly not diminish charges). The $100,000,000 is only hinted at in a vague way, which shews his own want of confidence in it. In his speech at Philadelphia of the 23rd April (p. 18) he says, "We proposed to sell at once $40,000,000 of these Bonds." There is the enormous difficulty in the way of the whole operation that till the conversion were complete, the new Bonds would

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Seventh.—I must admit that in one of my Philadelphia speeches I erred in saying that seven times as much money had been offered to me as asked for in the prospectus of the Deferred Income Bonds. The error was a mere slip of the tongue, resulting from my assuming, in the hurry of an extemporaneous speech, [**and afterwards deliberately printing and leaving uncorrected, for half a year, till we exposed it,**] that $72,000,000 of applications were seven times as much as the $10,000,000 to be realised in cash, forgetting for the moment [**as to the applications, though remembering it as to the amount to be realised,**] that the $72,000,000 were offered at the rate of 30 per cent instead of at par. The error simply [!] was in saying that *seven times as much as I wanted* was offered to me instead of *more than twice as much.* [**the "more than twice as much" consisting, to an enormous extent, of the applications by Mr. Gowen himself, the Anglo-French Union Bank Limited, and the other subscribers named in our Circular, p. 17. This is the end: so that an ex-Railroad-President winds up his defence by saying that he had forgotten, when making a speech on his latest financial operation, and (correcting and publishing that speech,) such an unimportant fact as that the issue price of the operation was only 30 per cent. instead of par !**]

FRANKLIN B. GOWEN.

43, COLEMAN STREET, LONDON, E.C.,
November 12th, 1881.

POSTSCRIPT BY MESSRS. MCCALMONT, BROTHERS & CO.

We have now finished the examination of this wearisome web of mistakes, misrepresentations, confessions, relapses, and false accusations, enlivened by a selection of stories from the American Jest Book, the source from which Mr. Gowen draws the entertaining part of his oratory. We think we have shewn to all Stockholders willing to give fair consideration to the case that he is utterly unworthy of their support. This is probably the last publication we shall have to make before the election. We are confident that the support we shall receive will be amply sufficient to maintain Mr. Bond and his colleagues in office; but we think it is the plain duty and interest of every Stockholder to assist in making our majority as large as possible, in order to put an end to the mischief which a continuance of Mr. Gowen's agitation will do to the Stockholders' best interests.

For the work of reconstructing the shattered finances and credit of the Company what is needed is peace; and this will be best assured by such a majority as shall convince Mr. Gowen that all attempts to regain the power which he misused will be in vain.

We again urge Stockholders who have not sent us their proxies to do so without delay.

MCCALMONT BROTHERS & CO.

15, PHILPOT LANE, LONDON, E.C.,
24th November, 1881.

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United States Circuit Court,

DISTRICT OF NEW JERSEY.

WILLIAM B. DINSMORE,
Complainant,

and

THE CENTRAL RAILROAD COMPANY OF NEW JERSEY AND THE PHILADELPHIA AND READING RAILROAD COMPANY,
Defendants.

} IN EQUITY.

ANSWER OF DEFENDANTS.

B. WILLIAMSON,
Solicitor, and of Counsel with Defendants.

GEO. R. KAERCHER,
F. B. GOWEN,
JAS. E. GOWEN,
A. G. RICHEY,
GEO. M. ROBESON,
Of Counsel.

PHILADELPHIA:
ALLEN, LANE & SCOTT'S PRINTING HOUSE,
Nos. 229-231 South Fifth Street.
1883.

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IN THE

Circuit Court of the United States,

IN AND FOR THE DISTRICT OF NEW JERSEY.

IN EQUITY.

WILLIAM B. DINSMORE,
Complainant,

AND

THE CENTRAL RAILROAD COMPANY OF NEW JERSEY, AND THE PHILADELPHIA AND READING RAILROAD COMPANY, AND OTHERS,
Defendants.

ANSWER OF DEFENDANTS.

The joint and several answer of the defendants, The Central Railroad Company of New Jersey, The Philadelphia and Reading Railroad Company, Franklin B. Gowen, J. B. Lippincott, Henry Lewis, I. V. Williamson, Edward C. Knight, Joseph B. Altemus, Henry S. Little, Theodore F. Randolph, John Kean, and Robert Garrett, to the bill of complaint of William B. Dinsmore, complainant.

The defendants admit the allegations and statements in paragraphs second, third, fourth, fifth, sixth, seventh, eighth, ninth, tenth, and eleventh to be true, and for greater accuracy beg leave to refer to the several acts

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of the Legislature of the State of New Jersey, and the supplements to the said acts referred to in said bill, when the same shall be produced upon the hearing of the said bill of complaint.

The defendants admit the allegations and statements in the twelfth paragraph of the bill of complaint with the following explanations and qualifications.

That while it is true that the said amount of the said capital stock was expended for the purposes in the said paragraph named, so large an amount was expended in addition thereto, and for other purposes connected with the said enterprise other than those specifically mentioned, that in the month of February, 1877, the said Central Railroad Company of New Jersey was debtor to an amount exceeding its capital stock of upwards of $31,000,000, of which $28,000,000 were secured by mortgage on its railroads and other properties, and to such an extent that no more money could be raised on any of its properties or securities, and at the same time was liable by reason of guarantees of over $14,000,000 and incumbered with a floating debt of upwards of $3,000,000, and its property was being seized by attachments so that it was unable to run its railroads or make its properties available, and became utterly insolvent; and upon a bill filed for the purpose in the Court of Chancery of the State of New Jersey a decree of insolvency was entered and a receiver appointed.

That it is true that the moneys invested in the capital stock of the said company had been until the year 1877 profitable in the way of dividends declared and paid on the same, but such dividends proved to be very far beyond anything that the profits of the company's business justified, and with other unprofitable expenditures so impoverished and embarrassed the company that it became utterly insolvent and unable to pay its debts, and Francis S. Lathrop was appointed, by the court, receiver, and afterwards Henry S. Little, as stated in the bill of complaint; that when the said Lathrop was appointed receiver the funded debt of the

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company was upwards of $28,000,000, and its floating and unsecured debt upwards of $3,000,000, and when the said Little was appointed receiver the funded debt of the company was $35,000,000, and its floating and unsecured debt was upwards of $3,000,000, and said receiver was embarrassed and put to great inconvenience in running the various railroads connected with the trust, and was obliged during the year of his receivership to carry a floating debt of upwards of $2,000,000 in order to keep the roads running.

That during the said receiverships it became apparent that in view of the competing and rival roads, and the precarious and uncertain connections of the New Jersey Central with other roads, that while its railroads and other properties might be made very profitable to some of the large railroad companies whose railroads connected with it, and its expenses largely reduced, and its business and profits increased, it would be a difficult matter and many years before any dividend could be declared upon its stock, if operated by itself; that while these forbodings and uncertainties existed its stock was only bought and sold on speculation, and varied in price from six dollars to one hundred dollars, until it finally settled to about eighty dollars under the expectation created by the rumor that some large company would take hold of it, and particularly the Reading; that there were no large capitalists making permanent investment in its stock and its future had become gloomy in the extreme; that under these circumstances it became a matter of necessity to find some capitalist or company to pay its floating debt above stated and take the New Jersey Central Railroad Company out of the hands of the receiver, or if that could not be done, then for the receiver to sell the property under the statute under which he was appointed and thus sacrifice all the interest of the stockholders, as it was manifest that under such a sale all the property embraced in the trust would not bring enough to pay the mortgage incumbrances.

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That the property having been in the hands of receivers under the direction of the Court of Chancery for more than four years, and the receiver having had no experience in running or managing railroads, it became a matter of necessity to close the trust, and the chancellor so told the receiver.

There was no way for the receiver to close the trust but to find some one to pay the floating debt, and no company or capitalist could be found except through the enterprise of the Philadelphia and Reading Railroad Company, with which company the railroad and properties of the New Jersey Central were intimately connected, and which had the facilities for managing the railroads of the New Jersey Central with great economy and profit to both companies.

That the only means of saving anything to the stockholders of the Central was by interesting capitalists connected with the Reading, with their friends, to purchase a large amount of the stock of the Central with a view of controlling its organization and effecting some arrangement between the two companies to their mutual benefit. With this in view the stockholders of the Central interested in the Reading united with the stockholders of the Central, and applied to the chancellor for an order to hold an election for the very purpose of getting control of the board of directors, and of carrying out some arrangement to unite the interests of the two companies, the Central and Reading; that it was a matter of public notoriety that this was in contemplation, and the records of the court of chancery, relating to the petition for an election of directors, show it, and so popular was it with the stockholders of the Central that at the election for directors under the order of the chancellor, which was held on the 23d day of June, 1882, there were 134,477 votes cast for the individuals elected directors, and not a single vote cast against them; and on the 11th day of May, 1883, an election, by order of the chancellor, was held, at which 154,333 votes were cast for the same individuals, and not a vote cast *contra*.

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That it is not true that there was or is the slightest probability that with any care, economy, or wisdom that human ingenuity can devise that the receipts of the said company from its freight, coal, or passenger traffic, and from all its resources, could rationally or confidently be expected to pay any such dividends as the fancy of the complainant suggests in the fourteenth paragraph of his bill; and these defendants confidently assert that when the lease was made to the Reading there was no company in the country, and no combination of capitalists could have been made to take a like agreement or lease with that made, and in question, and pay three per cent. on its capital stock.

The defendants aver and believe that no better lease or agreement could have been made, or could now be made for the stockholders with any other company, or party of capitalists, than the one in question, and that no company could afford to give to the stockholders so large a consideration as that secured by this lease, except the Reading.

They admit the lease is a profitable one for the Reading, and will prove of great value to their plant, by reason of the advantages derived from the continuity of the railroads and coal properties of the Central to the railroad and coal properties of the Reading.

That the admirable management and sound and sagacious policy so emphatically and extravagantly commended and complimented in the said twelfth paragraph of the complainant's bill are well merited; and yet, notwithstanding the skill and foresight of its management and its extensive and steadily increasing local business, the New Jersey Central became an insolvent corporation under the act of the State of New Jersey, entitled "An act to prevent frauds by incor-"porated companies," and after being in the hands of receivers for five years emerged from its insolvency with debts largely increased, both funded and floating, and was saved from being an utter wreck by the timely aid of capitalists interested in the Philadelphia

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and Reading Railroad Company, resulting in the lease which has saved the stockholders of the Central, and which the Pennsylvania Railroad Company by the aid of and in the name of a single stockholder, by the institution of this suit, is seeking to set aside upon the pretence that the complainant's interest as a stockholder is sacrificed by the lease.

The defendants further answering, deny that the complainant is the owner of one thousand shares of the capital stock of the Central Railroad Company of New Jersey, so far as there is any evidence of such ownership on the books of said company; that the said books show that he was the owner, and put in his own name and took five certificates of one hundred shares each of the said stock, on the sixteenth day of May, 1882; that there has been since then no change on the books of the company as to the ownership of the said five hundred shares and no change in the certificates issued therefor, but the said certificates are still outstanding as they were originally issued.

The defendants admit that the roads mentioned in the said twelfth paragraph of the bill of complaint were owned or possessed, and were controlled and operated, by the Central Railroad Company of New Jersey, as the same are particularly described in the said last-named paragraph, all of which are particularly set out in the lease in question.

That it is not true that the moneys invested in the capital stock of the said Central Railroad Company, as stated in the thirteenth paragraph of the said bill, had been very profitable and productive to the stockholders as far as profits in the shape of dividends were realized, and that the books show that the said dividends have not been at the rate of per cent. a year; that the stockholders who made the first investment lost all their stock; that the Elizabeth and Somerville Railroad was sold out under foreclosure, and did not bring enough to pay twenty-five per cent. of its mortgaged debt; that afterwards, in the year 1857, and after consolidation under the name of the Central

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Railroad Company of New Jersey, the company was on the eve of bankruptcy and its directors seriously contemplated an assignment, and was saved by great sacrifices of those interested in it; that in 1855 original second mortgages were offered at eighty-five per cent, and had a clause for conversion into stock within a given date, and were only taken by the stockholders at the personal solicitation of the president; that it passed through great changes of prosperity and adversity, until it succumbed to its inevitable fate in 1877, and was abandoned by its stockholders and directors as an insolvent corporation, and a large number of its stockholders who had purchased stock at upwards of a hundred sold out, many of them at ninety per cent below par; that while speculators in the stock may have realized largely in their speculations, the *bona fide* stockholders who had become such, for permanent investment, so far from finding their stock "profitable "and productive" realized a loss upon the same of not less than fifty per cent.; so that while the statement may be true that "the average rate of dividend upon "the said capital stock of the said company for a "number of years previous to and up to the year 1877 "was ten per cent. per annum," for more than twice the same number of years the dividends were not one farthing.

The defendants hope the statements made in the fourteenth paragraph of the bill are true; that it is manifest they ought to be true in order to enable the lessees, the Philadelphia and Reading Railroad Company, to pay the dividend of six per cent. on eighteen millions of dollars, and while the defendants believe that with the facilities and advantages necessarily accruing to the said various roads of the New Jersey Central by its connection with the Reading the said lease will produce ten per cent. and probably more; they have not a doubt, that unless the said lease had been made no such amount would have been realized for many years in the future, if ever. And the defendants deny that any management, however competent, could

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have earned ten per cent. upon the capital stock of the Central Railroad of New Jersey without the alliance and traffic of the Philadelphia and Reading Railroad Company.

These defendants admit the allegation in the fifteenth paragraph of the bill "that any act or thing which "takes, destroys, endangers or in any wise injures said "property or lessens its value or productiveness, is an "injury to said stockholders not consenting thereto," but the defendants deny that any act or thing complained of by the complainant does take, destroy, endanger or in any wise injure the property of the Central Railroad Company of New Jersey, or lessen its value or productiveness, but on the contrary allege that the acts and things of which complaint is made protect and preserve the trust properly from depreciation, and very greatly enhance its value and productiveness to the stockholders, who would consider any interference by the court as sacrificing their large interest to the comparatively insignificant interest of the complainant; that as to the other matters stated in the said fifteenth paragraph, they are matters of law, and assuming them to be true, all that the complainant can claim is the value of his stock, and his damages, taking as a rule or rules for ascertaining the former the present market value, and for the damages the sanguine and enthusiastic anticipations of the productiveness of his stock in the future; the defendants are willing and hereby proffer to pay the complainant for all his stock and for all damages he has sustained or will sustain by the acts and doings of the defendants, which the bill of complaint is filed to redress, if, upon the facts hereinafter particularly stated, the said complainant has any standing in a court of equity to maintain his bill for relief.

The defendants further answering, show that the said lease was no sudden or unexpected occurrence, but was the natural result from the occurrences of several previous years.

That the Delaware and Bound Brook Railroad, running from the Delaware river near Trenton to Bound

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Brook and there connecting with the New Jersey Central, was constructed and running in the year 1876 under an agreement between the Delaware and Bound Brook Railroad Company and the New Jersey Central for the transportation of freight and passengers between New York and Philadelphia; this was considered the most important connection looking at the future of the New Jersey Central, anticipating thereby further connections with the South and West.

That in the month of May, 1879, the Philadelphia and Reading Railroad Company leased for nine hundred and ninety years the said Bound Brook Railroad and the North Pennsylvania Railroad, a branch of which latter road runs from Jenkintown to the Delaware river, there connecting with the said Bound Brook Railroad, and reaching Philadelphia by the said North Pennsylvania Railroad, and is in possession of the Philadelphia and Reading Railroad Company, the last-named company having punctually paid the stipulated rental since the date of the said lease. With a view of making secure this connection, and of combining the interest which both companies had in the vast coal fields of Pennsylvania, and making them productive, and preventing any future competition which might be ruinous to both, it became apparent that both companies must be under one management. With this view the large capitalists, owners of a large portion of the Reading stock, commenced buying up the stock of the New Jersey Central, and finding that a large portion of the stockholders who continued to hold their stock favored controlling the New Jersey Central by lease, or by some like arrangement, they agreed together to take the Central out of the hands of the receiver by paying or securing its floating debt, which could only be done by the Court of Chancery modifying the injunction so as to permit the then existing stockholders to hold an election of directors, and procure a board favorable to the views and objects hereinbefore stated.

That on or about the 10th of April, 1882, Edward

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C. Knight, one of the directors of the Philadelphia and Reading Railroad Company, and who was the owner of three thousand shares of the stock of the Central Railroad Company of New Jersey, having purchased them in the interest of himself and others, as hereinbefore stated, presented a petition to the chancellor praying an order to modify the injunction and to hold an election for directors. Upon the presentation of the petition the chancellor gave an opinion in writing, and in the same, among other things, said:—

"The property in the hands of the court in this "case is valued at about $50,000,000. By statute "the court is required to operate the road for the "benefit of the public, Rev., page 196, paragraph 106. "And without the statute the same action would be "taken in view of the obvious necessity of thus keep- "ing the trust property in proper condition and making "as productive as possible. There are many very im- "portant respects in which the action of the board as "representatives of the company may prove exceed- "ingly useful to the court in administrating the "trust; and in many of such matters the future of "the company, after it shall have passed out of the "hands of the court, may be most materially affected "by the action of the board. It is therefore eminently "proper that the board should be the representatives "of the stockholders, and therefore that a proper "opportunity should be afforded to the latter to make "selection of their agents. Moreover, should the "court deem it advisable to turn over the property "to the company, the stockholders must receive it "by the hands of the board. Therefore there must be "directors, and in such case as well as generally the "board should be the true and lawful representatives "of the stockholders whose property they are to con- "trol and administrate.

On the 25th of May, 1882, an order was made by the chancellor for an election, which was held in pursuance thereof on the 23d of June following, and at

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such election, by all the votes then cast, Franklin B. Gowen, Henry S. Little, John Kean, Edward C. Knight, Robert Garrett, Samuel Sloan, Edward Clark, Theodore F. Randolph, and Sidney Shepard were elected directors.

That it was a matter of public notoriety that by this election the New Jersey Central had passed into the control of the Reading, and the fact and its consequences were fully discussed in the public newspapers; that before the year had expired for another election of directors it was generally supposed and understood that the Central Railroad would be leased to the Reading, and the subject was fully and generally discussed among the stockholders, and was looked upon by them as most advantageous to their interest; that the president of the Central was called upon from time to time by the stockholders for information and no stockholder objected; that it was well known to the complainant that the said lease was in contemplation, and he never made any objection to the same.

That by a second order, made by the chancellor upon the petition of the directors, a second election was held on the 11th of May, 1883, at the annual meeting of the said The Central Railroad Company of New Jersey.

That it was generally understood that the matter of the lease would be brought before the stockholders at that election, and proxies were prepared with that view, and that the directors elected would cause such lease to be executed, and the directors were elected for that particular purpose.

That on the 11th of May, 1883, the following-named persons, to wit, Henry S. Little, Franklin B. Gowen, John Kean, Edward C. Knight, Theodore F. Randolph, Robert Garrett, Sidney Shepard, Samuel Sloan and J. Kennedy Tod were unanimously elected by the votes of one hundred and fifty-four thousand three hundred and thirty-three shares, being the whole number of shares voted.

That the vote of the five hundred shares of stock standing in the name of the complainant, and being all the stock standing in his name, was cast for the directors

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elected, the said complainant well knowing that the said directors intended, upon receiving the assent of the shareholders thereto, to execute a lease of the Central Railroad of New Jersey to the Philadelphia and Reading Railroad Company. And the defendants further answering, say that at the said annual meeting of the company a resolution approving of the said lease, and directing the board of directors to execute the same as soon as the receivership was terminated, was unanimously adopted by the shareholders by a vote of one hundred and thirty-eight thousand nine hundred and fifty-one shares, not a single shareholder having voted against it, and that the said complainant, by his proxy present at the said meeting, voted in favor of the said resolution directing the directors of the company to execute the lease to the Philadelphia and Reading Railroad Company, and that the said lease was subsequently, to wit, on the twenty-ninth day of May, A. D. 1883, in pursuance of the said resolution, executed and delivered to the Philadelphia and Reading Railroad Company, without objection or remonstrance by or on behalf of a single shareholder, and according to the unanimous resolution of all the shareholders of the company who voted upon the subject at the said annual meeting, including the complainant, who having thus authorized and approved the lease and instructed the directors to execute the same, has no standing whatever in a court of equity to demand the rescission of the same.

That the said Philadelphia and Reading Railroad Company, on the day last aforesaid, entered into the possession of the said leased premises, and have had full possession ever since, and upon taking such possession the said Philadelphia and Reading Railroad Company did, by its president, issue the order, or circular notice, announcing that it had taken possession of the said railroads, leased lines, ferries, real estate, property, plant, traffic and business of the said The Central Railroad Company of New Jersey, and also issued the order in paragraph nineteen of the bill particularly mentioned.

That it is true no other consideration was given, or

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is to be given, for the said premises, except that stipulated in and secured by the lease.

That when the said leased property was turned over to the lessee there were in the employment of the said railroad company, connected with the running, management, and superintendence of the said leased property, upwards of seven thousand employés, all of whom have since been discharged as employés of the Central Railroad of New Jersey, and that there are now connected with the said Central Railroad Company only the officers constituting the board of directors, and the president, secretary and treasurer.

That any interruption of the management of the leased property, such as is contemplated by and would necessarily follow the issuing of a temporary injunction prayed for by the bill, is impossible, or if possible would be ruinous to the complainant as a stockholder, and to the other stockholders holding the remainder of the whole amount of $18,563,200 outstanding stock.

The defendants insist that the acquiescence in and approval of the lease by the complainant precludes him from any such aid, by equitable interference, as is asked for by his bill, and more particularly so because he gives no excuse for his delay in filing his bill till after the execution of the lease, except such flimsy ones as are worse than none, and expose the *mala fides* of this prosecution, and make it clear that it is not intended for the honest purpose of protecting his rights as a stockholder.

And the said defendants further answering, deny that the said The Philadelphia and Reading Railroad Company, as a railroad transporter, was a rival of or antagonistic to the said The Central Railroad of New Jersey, and deny that the said The Philadelphia and Reading Railroad Company has been grossly mismanaged, or that it labors under a debt of nearly $170,000,000, and while admitting that the said Philadelphia and Reading Railroad Company was recently in the hands of receivers appointed by the court, the defendants deny that the said Philadelphia and Reading Railroad

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Company is insolvent, or that any judgments, liens or debts exist against it which can not be paid as they mature. And the defendants charge and say that the said The Philadelphia and Reading Railroad Company is solvent; that it is now and has been for nearly three years last past earning more than sufficient to meet all of its obligations and that the value of its property largely exceeds the amount of its obligations.

And the defendants further answering, say that it is not true as stated in the sixteenth paragraph of the complainant's bill that the directors of the Central Railroad of New Jersey executed the said lease to the Philadelphia and Reading Railroad Company without the consent of the stockholders, or without the consent of the complainant, but that the said lease was made by the directors on the 29th of May last in pursuance of a resolution directing the execution of the same, adopted unanimously by all the shareholders of the company voting upon the subject at the preceding annual meeting of the company, held on the said eleventh of May, A. D. 1883, and which resolution was voted for by the complainant's proxy, who attended the said meeting as the proxy and representative of the complainant.

That the allegation and charge in the twentieth paragraph of the bill is a wanton and malicious untruth, and the defendants are informed and believe that the charge was put in the said bill at the solicitation and instigation of a rival company of the Philadelphia and Reading Railroad Company by the agents, officers, solicitors and attorneys of said rival company.

The defendants admit the allegations in paragraph twenty-third of the bill with the following modifications: They admit that the said Gowen and Knight and the others named were chosen directors of the said company, and as the bill alleges, principally to make, execute and deliver to the said Philadelphia and Reading Railroad Company the said lease and contract, but the defendants deny that this or any fact

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connected with the making or execution of the said lease was concealed from the stockholders, and the said allegation to the contrary is inconsistent with the allegation in the same paragraph, to wit:—

"That at an election of directors hereinbefore stated, "most of the said shares of stock cast for the election "of the present directors were, at the same time, voted "in favor of the scheme to make said pretended lease, "so that the owners of fully four-sixths of said capital "stock have, in effect, authorized, by said vote of their "stock, the execution of the said pretended lease and "contract." That the statements in the residue of the said twenty-third paragraph of the bill show that the complainant has been unable to find any stockholder to unite with him in opposing the said lease or in filing this bill, and that there are no equitable grounds to maintain this bill in favor of the complainant. They deny that the defendants named, under cover of the said pretended lease, or knowing its illegality, have been guilty of any of the acts charged against them, but to the contrary say they have discharged all their duties faithfully and for the best interest of the stockholders of the New Jersey Central Company.

The defendants deny that the making and executing the said lease is an injury to the complainant as a stockholder, and on the contrary allege the said lease is of great benefit to the complainant as a stockholder, and they submit that the complainant's conduct in reference to the making of the said lease and carrying it into execution is a waiver of all legal or equitable rights which he might otherwise have interposed as a dissentient stockholder.

The defendants further answering, allege that the said bill is not exhibited in good faith by the said complainant, or for the honest purpose of asserting his rights as a stockholder, but in the interest of a rival company to the Philadelphia and Reading Railroad Company and of the New Jersey Central Railroad Company.

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That although the lease was executed, and the order hereinbefore mentioned for the transfer of property under it was made on the twenty-ninth day of May, 1883, with the knowledge of the complainant, yet he delayed for one month before he filed this bill, most of which time was occupied in fruitless negotiations by a rival company with others for the institution of a similar suit.

That the said complainant was satisfied with the lease and did not desire to have it disturbed, and had no intention of attempting to disturb the same until he was approached by and on behalf of the Pennsylvania Railroad Company for the purpose.

That he was solicited by the said Pennsylvania Railroad Company to file the bill and the services of their counsel were tendered for the prosecution of the suit, and an arrangement was made by which this suit is prosecuted in the name of the complainant, but for the benefit of the said Pennsylvania Railroad Company, and at their expense.

That the affidavits to the bill were procured by the said Pennsylvania Railroad Company at their expense.

These defendants further answering, show that what ever may be the rights of stockholders upon the theory and principle as set out in paragraph fifteen and in other parts of the said bill, the complainant shows, from the facts stated in his said bill, that he has no such legal or equitable rights as a stockholder of the Central Railroad Company of New Jersey as claimed by him.

That the "scheme" in which and to promote which the stockholders made their original investment was in an enterprise for a railroad only about twenty-eight miles in length, running from Elizabeth to Somerville, in New Jersey, which was subsequently entirely changed by being sold out to the Somerville and Easton Railroad Company, a company authorized to construct a road running from Somerville to the Delawere river, being about thirty-eight miles, and which last-mentioned scheme, by the acts of the legislature

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mentioned particularly referred to in the complainant's bill and the supplements thereto, was changed into the said "The Central Railroad Company of New Jersey," and so, by the authority and powers of the ten acts enumerated in the bill and by the appropriation of its funds in the purchase, construction and lease of railroads and stocks of railroads, the original scheme has been entirely changed from time to time, and at numerous times.

The said complainant was not an original subscriber to the stock, but became the purchaser thereof, as before stated, in the year 1882, at which time it does not appear, nor does his bill tell us, what the "scheme" was, nor does it tell us, amid all the confusion and uncertainties of his bill, in what enterprise he invested or in what scheme he has a right to enjoy and have protected inviolate his rights as a stockholder. The defendants show that since the year 1882, the time he purchased his stock, The Dover and Rockaway, Lake Hopatcong, Manufacturers', Ogden Mine, Sound Shore, and Constable Hook Railroads have been acquired by the receiver, and were no part of the scheme of any investment.

The defendants submit to the court that the only "scheme," if any, of which as a stockholder the complainant can claim protection on the grounds stated in his bill, to wit, "the substitution of new trustees," or "transfering the possession and management of the "property of stockholders to other corporations," *or* "*in any wise* changing the scheme of said railroad "company or the enterprise in which and to further "which the said stockholders advanced and invested "their capital," is the scheme and enterprise authorized by the charter of "The Central Railroad Company of "New Jersey," and not other schemes outside of the original act of incorporation or its supplements; that where the said company has made acquisitions to their plant beyond their chartered rights and no stockholder has interfered to prevent such acquisition, there is nothing to prevent the directors from time to time, by

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the same authority and in the same manner as they acquired, parting with such acquisitions as may be most advantageous to the interest of the stockholders, and by the same authority by which the property has been acquired it may be disposed of provided it is done in good faith.

That the railroads which belong to the "scheme" authorized by or held under the charter of "The Central Railroad Company of New Jersey," and among those mentioned in the twelfth paragraph of the bill of complaint are the railroad extending from Elizabethport to Phillipsburg, the road extending from Somerville to Flemington, the road extending from Communipaw to Newark, and the road extending from Elizabethport to Perth Amboy; that all the other roads were held by the company as lessee, or by reason of its being owner of such company's stock; that of the leased roads the only one held as such and authorized by the charter of the Central was the New York and Long Branch Railroad; that the interest the Central held in the others, either as stockholders or otherwise, was by the sufferance of and not by the authority of the State, and which the directors could sell in the same way and by the same authority by which they acquired the ownership or control.

The defendants further show, that in the year 1871 the New Jersey Central became the lessee of the Lehigh and Susquehanna Railroad and its branches and appurtenances, constructed and owned by a corporation created under the laws of the State of Pennsylvania, which said railroad and branches consist of more than one hundred and ninety-three miles of railroad connecting at Phillipsburg with the New Jersey Central, and running thence into the coal regions of Pennsylvania, and by means of which the New Jersey Central was enabled to do the "enormous and productive" coal business which the bill of complaint refers to and alleges to be the main source of profit to the New

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Jersey Central, and without which the bill of complaint shows the complainant's stock is not worth a dollar, and yet the bill conceals the fact that the Lehigh and Susquehanna Railroad has passed into the possession of the said Philadelphia and Reading Railroad Company by the co-operation of both the New Jersey Central and the Lehigh Coal and Navigation Company, and under a new contract between the Philadelphia and Reading Railroad Company and the Lehigh Coal and Navigation Company; and the complainant seeking no relief as to this disposition of the Lehigh and Susquehanna Railroad, asks as a stockholder for relief which would destroy his own stock and that of all the other stockholders.

The defendants submit to the Court that the *mala fides* of exhibiting the bill is apparent all through and shows the object to embarrass and destroy the Central Railroad and damage the Philadelphia and Reading Railroad Company.

The defendants insist that the directors of the Central had the right, with the consent of a majority of the stockholders, to make and execute the lease in question, and that if the principle of law invoked by the complainant as to the rights of every stockholder to have the scheme or enterprise in which he embarked held inviolate is as stated, yet it has no application to the subject-matter of this suit; and, further, if it has any application at all it can only apply to the roads from the Hudson to the Flemington Branch, the Newark and New York Railroad, and the Elizabethport and Perth Amboy Railroad.

And the defendants further answering, say that the said Pennsylvania Railroad Company is a corporation chartered by the laws of the Commonwealth of Pennsylvania, owning a vast system of railroads in the said Commonwealth and holding under lease the railroad property of the United Railroads of New Jersey; that at present the said Pennsylvania Railroad Company controls the only outlets from the bituminous coal and iron fields of Central

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Pennsylvania to the ports of Philadelphia and New York; that new railroads to said coal and iron fields are now located and in progress of construction, in the interests of the Philadelphia and Reading Railroad, the traffic for which will be thrown upon the Central Railroad of New Jersey, and that the Pennsylvania Railroad Company has been, through its agents or officers, anxious to prevent an alliance between the said The Philadelphia and Reading Railroad Company and the Central Railroad Company of New Jersey, and thus interfere with the opening of a new and rival line of railroad; that the said complainant is the president of an association or company known as the Adams Express Company, doing business upon, deriving large profits from, and closely affiliated to the said Pennsylvania Railroad Company; and that the said Pennsylvania Railroad Company, or its officers and agents, having failed to induce any other shareholder of the said The Central Railroad Company of New Jersey to interpose objections to the said lease, have prevailed upon the said complainant to file this bill of complaint entirely in the interest of the said Pennsylvania Railroad Company and of parties intimately connected therewith, and with a view not only of preventing the opening of the aforesaid new rival line of railroad but of injuring and damaging the credit of the said The Central Railroad Company of New Jersey. And the defendants further answering, say that they charge upon information and belief, and expect to be able to prove, that certain persons closely affiliated with, and in the interests of the Pennsylvania Railroad Company, and designing and intending to injure the credit of the Central Railroad Company of New Jersey, and to depress the value of its shares in the market, have made sales of or contracts to deliver the shares of the said company, which shares they did not own but which they expected or hoped to purchase in the future at much lower prices than they had sold them for, and that, failing to secure such a fall in prices

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as they expected, they have procured the complainants to file the present bill in the hope and belief that the threat of interfering with the payment of dividends to the shareholders arising from the rent due under the lease of the said railroad would destroy the credit of the said The Central Railroad Company, and effect a fall in the price of the shares upon the market.

The defendants aver that the said lease from the Central Railroad Company of New Jersey to the Philadelphia and Reading Railroad Company is not invalid under the laws of the State of New Jersey, and they aver that the same is expressly authorized under and by the laws of the said State.

The defendants aver that, in addition to the unanimous resolution of the stockholders approving and authorizing the said lease, passed at a meeting of the stockholders held on the eleventh day of May, 1883, the said lease was approved and confirmed at a subsequent meeting of the stockholders held on the sixth day of July, 1883.

And the said Franklin B. Gowen, one of the said defendants, for himself answering, says—That there is in existence a railroad corporation known as the Pennsylvania Railroad Company, chartered by the laws of the Commonwealth of Pennsylvania, and being the owners and lessees of an extensive system of railroads in Pennsylvania and New Jersey. That the said Pennsylvania Railroad Company's lines of railroad are now and have been for some time past the only avenues of railroad transportation over which coal and other products from certain districts of Pennsylvania can be sent to markets within and without the State of Pennsylvania.

That in many cases, especially in the transportation of coal and mineral products of Pennsylvania, it has been and is now the custom of those who control the management of the Pennsylvania Railroad Company to make secret rates of transportation to a few favored shippers much lower than charged at the same time for the same service to others, to the injury

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of said other shippers and the shareholders of the company, and to the great profit of those who secure the favored rate.

The large profits thus diverted from the shareholders of the Pennsylvania Railroad Company to the favored shipper or transporter have, in many cases, been participated in by persons in the employment of the said Pennsylvania Railroad Company, who, with the said favored shippers as aforesaid, have therefore a large pecuniary interest in preventing such competition, resulting from the construction and opening of rival lines of railroad as would destroy the monopoly of transportation now enjoyed by the Pennsylvania Railroad Company, which alone permits the said company to collect more from one shipper than from another for the performance of the same work, and thereby to aid in the accumulations of the vast fortunes that have resulted and are now resulting from the unfair and unlawful discrimination of rates as aforesaid.

That this monopoly of the transportation of certain products of Pennsylvania so long enjoyed by the Pennsylvania Railroad Company, and the consequent ability to compel the great mass of shippers to pay more for transportation than the few favored recipients of private special lower rates, have in the past and are now enabling certain friends of the said Pennsylvania Railroad Company to realize enormous fortunes and to become, by means of the possession of such fortunes, active, powerful, and influential in almost all departments of business, as well as in political life, in protecting the said Pennsylvania Railroad Company in the enjoyment of its monopoly as aforesaid, and in preventing the construction and opening of rival lines of railroad, the existence of which would interfere with the monopoly aforesaid and effectually prevent the said favored shippers from continuing to realize their unlawful and unjust gains.

And the said defendant further answering, says—That the geographical position of the lines of railroad owned, controlled, and operated by the said Pennsylvania

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Railroad Company is such that there is at present and has been for some years last past, but one railroad company, namely, The Philadelphia and Reading Railroad Company, which is at all likely or probable to become a competitor of the Pennsylvania Railroad for the transportation of the aforesaid mineral products of Pennsylvania. That for some time past it has been well known to the Pennsylvania Railroad Company, its officers, agents, employés, and the said favored shippers upon its lines as aforesaid, that the said The Philadelphia and Reading Railroad Company intended to enter into such competition; that a line of railroad owned by a company in friendly alliance with The Philadelphia and Reading Railroad Company is now being constructed to connect the railroad system of the said The Philadelphia and Reading Railroad Company with what is known as the Clearfield bituminous coal region of Pennsylvania, a region producing some three millions of tons of coal per annum, and which heretofore has had no other railroad outlets to market than those controlled by the Pennsylvania Railroad Company, and where for some time last past the unjust system of special favored rates has prevailed for the benefit of a firm known as Berwind, White & Co., who have thus been enabled to realize large profits by reason of such favored rates, while other shippers and the shareholders of the Pennsylvania Railroad Company have greatly suffered. That a line of railroad owned by a company in friendly alliance with The Philadelphia and Reading Railroad Company has recently been constructed, connecting the railway system of the said The Philadelphia and Reading Railroad Company with the port of Buffalo upon Lake Erie, by means of which the said The Philadelphia and Reading Railroad Company, has been enabled to enter into competition with the Pennsylvania Railroad Company for the supply of the lake markets at Buffalo, by rail, with anthracite coal from the Shamokin coal region of Pennsylvania, of which, prior to the construction of

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the said new line of railroad aforesaid, the said Pennsylvania Railroad Company had a monopoly. That having such monopoly the said Pennsylvania Railroad Company has in the past given, and does now give, to a certain William L. Scott a very much lower rate of transportation upon anthracite coal than it has given, or does now give, to the miners and shippers of such anthracite coal who own or produce the coal, although said William L. Scott is not a miner of coal but a simple dealer therein. That in consequence of such low rate and unfair discrimination the said William L. Scott has realized enormous profits and has become and now is an active and influential friend and defender of the said The Pennsylvania Railroad Company. That another line of railroad under the control of a company in friendly alliance with the Philadelphia and Reading Railroad Company has been located and is about to be constructed, connecting the railroad system of the said, The Philadelphia and Reading Railroad Company, at Harrisburg with Pittsburg, Cleveland, Chicago, and the West and Northwest, which when completed will enable the said, The Philadelphia and Reading Railroad Company, to enter into competition with the said The Pennsylvania Railroad Company for the transportation of the valuable gas and other bituminous coals and coke of Western Pennsylvania, to the markets of Philadelphia and New York and intermediate points, of which the said, The Pennsylvania Railroad Company, has heretofore in many cases possessed such a practical monopoly as has enabled it in the past,—especially in the matter of the transportation of gas coal for the Gas Trust of Philadelphia, which until the late municipal election of Philadelphia was controlled by allies and friends of the Pennsylvania Railroad Company,—to aid, maintain, and assist in the control of such local, municipal, and political power in the city of Philadelphia as gave it (until the recent municipal election aforesaid) for its own aggrandizement, an unfair and unjust supremacy and control of local municipal power.

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And the said defendant further answering, says—That in consequence of the location and construction of the several lines of railroad above referred to, it became necessary for the Philadelphia and Reading Railroad Company to have permanent railway connection with the harbor of New York; that the line of railway most available for such purpose was that of the Central Railroad Company of New Jersey, a company with which the said The Philadelphia and Reading Railroad Company had no antagonistic railroad interests, and over whose line it had been for some time sending traffic to the waters of New York Bay.

That by the addition of the various lines of railway above referred to, now constructed, or to be constructed, in the West and Northwest, and by the acquisition of the lines of the Central Railroad of New Jersey and of its system in the East, the said The Philadelphia and Reading Railroad Company will become an active competitor of the said The Pennsylvania Railroad Company in almost all of the mineral districts of Pennsylvania aforesaid; that the result of this competition will destroy the monopoly which the said The Pennsylvania Railroad Company has so long exercised and enjoyed, will break down the system of unjust discrimination which has so long existed upon the lines of the said, The Pennsylvania Railroad Company, and will effectually put an end to the unfair acquisition of wealth by the favorites of the said, The Pennsylvania Railroad Company, at the expense of the mineral and manufacturing industries of the said Commonwealth of Pennsylvania.

That this system of unjust discrimination of rates and the unfair acquisition of wealth has been carried to such an extent during the past, that nearly all the prominent officials connected with the said, The Pennsylvania Railroad Company, have become enormously rich. That vast fortunes have been accumulated by the various persons aforesaid, who are the favored recipients of lower rates than their competitors, and that for the defense of the monopoly which

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permits such a system to exist, there has grown into existence a power resulting from the confederation of the said persons, and the use of the abundant means at their disposal, which, at various periods in the past, has controlled and dictated the exercise of State and municipal legislation, has influenced the action of nominating conventions of both political parties, has secured or prevented the nominations and elections of judges, of United States senators, of members of Congress, and other officers, and which has, by its corrupting influences in the States of Pennsylvania and New Jersey, threatened the very existence of republican institutions.

That the design of the said The Philadelphia and Reading Railroad Company to unite its system of railroads with the new lines aforesaid and with that of the Central Railroad Company of New Jersey has been publicly avowed for some two or three years last past, and that the said The Pennsylvania Railroad Company, its agents, officers, favored shippers, and transporters, allies, and friends, have been for some time and are yet endeavoring to prevent the accomplishment of the said design.

That in pursuance of this attempt to obstruct the union of the lines aforesaid, and to prevent the consequent competition with which they are threatened, the said, The Pennsylvania Railroad Company, and its confederates aforesaid have endeavored to destroy and injure the credit of The Philadelphia and Reading Railroad Company, and to prevent its acquisition of the Central Railroad of New Jersey. And the defendant charges that the complainant's bill is filed in the interest of the said, The Pennsylvania Railroad Company, and its allies and confederates aforesaid, and with a view of depressing the market value of the shares of the said, the Central Railroad Company of New Jersey, by threatening litigation to interfere with the receipt of the dividends due to the shareholders of the said, the Central Railroad Company of New Jersey.

And the said defendant further answering, says—That

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he is informed and believes, and expects to be able to prove, that certain friends and allies of the said The Pennsylvania Railroad Company, notably the said William L. Scott, and A. J. Cassatt, the latter for many years an officer of the said The Pennsylvania Railroad Company, have with a view of breaking down the credit of the said The Central Railroad Company of New Jersey, and depressing the value of its shares in the market, sold on the stock exchange, the shares of the said The Central Railroad Company of New Jersey, which shares they did not own, and the defendant charges that the bill of the complainant in this case was filed at the request and instigation of those who so sold the shares as aforesaid and others combining with them, and with the hope that the publicity given to an attempt to restrain the defendants from carrying out the lease, would depress the value of the shares of the said The Central Railroad Company of New Jersey for the benefit, as well of those who had so sold them as aforesaid, as of the Pennsylvania Railroad Company, its allies and confederates.

And the said defendant further answering, says—That the complainant in this case is the president of and largely interested in the capital of an association known as the Adams Express Company, which is a large shareholder of the Pennsylvania Railroad Company.

That the said the Adams Express Company has now and has had for many years past, a practical monopoly of the business of transporting, what is known as express matter, over the lines of the Pennsylvania Railroad Company; that the said monopoly has been of great pecuniary value to the said Adams Express Company, the defendant believing that the profits realized from such business of the Adams Express Company have amounted to millions of dollars, which might have been diverted to the treasury of the said the Pennsylvania Railroad Company, if the said company had themselves transported the express matter on their lines.

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That in consequence of the great value of the exclusive privilege possessed by the said The Adams Express Company, a portion of the profits whereof are shared by the said complainant, the said complainant and the said Adams Express Company are closely affiliated to and allies of the said the Pennsylvania Railroad Company.

And the said defendant further answering, says—That he is informed and believes, and therefore charges and expects to be able to prove, that the said The Pennsylvania Railroad Company, its counsel, agents, and confederates have been, from time to time, since the question of a lease of the said Central Railroad Company of New Jersey was first proposed, endeavoring to secure the services of some shareholder of the said the Central Railroad Company to interpose objections to the said lease, and that failing to secure any, they have used the influence they possessed over the Adams' Express Company and the complainant to induce the latter to file this bill.

These defendants do most respectfully deny the right of this Honorable Court to interfere in the premises, and pray that the said bill may be dismissed with costs.

H. S. LITTLE,
Pres't.

Attest:
SAML. KNOX,
Secy.

F. B. GOWEN,
Pres't.

Attest:
A. FOSTER,
Secty.

F. B. GOWEN,
J. B. LIPPINCOTT,
HENRY LEWIS,
I. V. WILLIAMSON,
E. C. KNIGHT,
J. B. ALTEMUS,
H. S. LITTLE,
THEO. F. RANDOLPH,
JOHN KEAN.

B. WILLIAMSON,
Sol'r & of Counsel with Defts.

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UNITED STATES OF AMERICA,
DISTRICT OF NEW JERSEY, } ss.

The answer of the defendants, The Central Railroad Company of New Jersey, and The Philadelphia and Reading Railroad Company, was taken this 15th day of October, in the year eighteen hundred and eighty-three, before me, under the common seals of the said corporations as by their seals thereunto affixed appears.

W. MUIRHEID,
Master and Examiner in Equity,
U. S. Circuit Court, Dist. of N. J.

UNITED STATES OF AMERICA,
DISTRICT OF NEW JERSEY, } ss.

Franklin B. Gowen, J. B. Lippincott, Henry Lewis, I. V. Williamson, Edward C. Knight, Joseph B. Altemus, Henry S. Little, Theodore F. Randolph, and John Kean, the above-named defendants, being severally duly sworn or affirmed, each for himself, deposeth and saith, that the facts and matters in the foregoing answer stated, so far as they relate to his own acts, are true, and, so far as they relate to the acts or deeds of any other person or persons, or corporations, he believes them to be true.

Sworn and affirmed and subscribed before me this fifteenth day of October, 1883.

W. MUIRHEID,
U. S. Comr.,
Dist. of N. J.

F. B. GOWEN,
J. B. LIPPINCOTT,
HENRY LEWIS,
I. V. WILLIAMSON,
E. C. KNIGHT,
J. B. ALTEMUS,
H. S. LITTLE,
THEO. F. RANDOLPH,
JOHN KEAN.

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UNITED STATES OF AMERICA,
DISTRICT OF NEW JERSEY, } ss.

Personally appeared before me, Edward C. Knight, who, being duly affirmed, did depose and say that he is one of the board of directors of the Central Railroad Company of New Jersey, a member of the board of managers of the Philadelphia and Reading Railroad Company, and one of the defendants in the foregoing stated suit of William B. Dinsmore against the Central Railroad Company of New Jersey and the Philadelphia and Reading Railroad Company; that he attended the annual meeting of the stockholders of the Central Railroad Company of New Jersey, held on the eleventh day of May, 1883, at Jersey City, in the State of New Jersey; that he then and there had the proxy of the said William B. Dinsmore, one of the stockholders of the said company, authorizing him, the said deponent, to represent and vote for said William B. Dinsmore at the said meeting; and that upon the subject of the execution of the lease by the Central Railroad Company of New Jersey to the Philadelphia and Reading Railroad Company, this deponent voted the said shares of the said William B. Dinsmore in favor of the execution of the said lease, and that the papers annexed hereto are a copy of the said proxy by authority of which he cast said vote, and a copy of the ballot voted by him in connection with said proxy.

And deponent further says that he was a director of the Central Railroad Company of New Jersey for three years, that he was the president of the said company for three years, and has always taken a very great interest in the management of said company, and has also been, during the periods aforesaid, a large stockholder in the same; that he gave the subject of the said lease very much consideration, and talked about the same with many of his friends, who were stockholders in the said company, and who had become stockholders therein at his solicitation; that he be-

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lieved it was to the best interests of himself as a stockholder, and of all the stockholders, that the said lease should be made, and with the view of promoting such interests he voted for the execution of said lease; that the said lease had been the subject of consideration for a year or more, and there was no concealment whatever in reference to the same, but it was generally understood and talked about that the said company would be in some way under the management of the Philadelphia and Reading Railroad Company, and deponent further says, that the allegations in the said bill, charging, in any way, that said lease was made secretly and not in good faith, are not true.

Affirmed and subscribed before me this fifteenth day day of October, A. D. 1883.
W. MUIRHEID,
U. S. Comr.,
Dist. of N. J.

E. C. KNIGHT.

(Copy of Proxy.)

"*Know all Men by these Presents*, That I, W. B. Dinsmore, of New York, do hereby appoint Edward C. Knight, of Philadelphia, or, in his absence, Henry S. Little, of New Jersey, or in the absence of both, Franklin B. Gowen, of Philadelphia, to be my substitute and proxy, for me and in my name and in my behalf to vote at the election of officers of The Central Railroad Company of New Jersey, or on any other business relating to said company, at the next annual meeting of the stockholders of said company, as fully as I might or could were I personally present, and I hereby revoke any other proxy heretofore given by me.

"*In Witness Whereof*, I have hereunto set my hand and seal this fourth day of May, 1883.

"W. B. DINSMORE. [SEAL]

"Witness present:

"D. B. BARNUM."

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(Copy of Ballot.)

" W. B. Dinsmore, by his proxy, Edward C. Knight.
" Number of shares 500. In favor of the resolutions.

(Reverse side.)

" *Directors of Central Railroad Company of New Jersey.*

" HENRY S. LITTLE,
" JOHN KEAN,
" FRANKLIN B. GOWEN,
" EDWARD C. KNIGHT,
" ROBERT GARRETT,
" SIDNEY SHEPARD,
" THEODORE F. RANDOLPH,
" SAMUEL SLOAN,
" J. KENNEDY TOD."

UNITED STATES OF AMERICA,
DISTRICT OF NEW JERSEY, } *ss.*

Samuel Knox, being duly sworn on his oath, says that he was treasurer of the Central Railroad Company of New Jersey from the year 1860 to the day of , 1881, and has been secretary from 1860 to 1881 and is now secretary; that he is familiar with the books of said company; that what is stated in the aforesaid answer of the defendants as to the past financial condition of said Central Railroad Company of New Jersey, is true, and what is said of the stock and of the ownership of stock by the complainant, also what is stated as to the several meetings of the stockholders and the votes cast at said meetings, is true.

Sworn and subscribed before me this 15th day of October, 1883.
W. MUIRHEID,
U. S. Comr.,
Dist. of N. J.

SAM'L KNOX.

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UNITED STATES OF AMERICA, } ss.
DISTRICT OF NEW JERSEY, }

Personally appeared before me the subscriber, Albert Foster, who, being duly sworn according to law, doth depose and say, that he has been a resident of the city of Philadelphia for forty years; that he has been the secretary of the Philadelphia and Reading Railroad Company for about two years, and in the employ of said company for over twenty years; that, as such secretary, he is and has been thoroughly familiar with the business of said company and its accounts. That since the lease of the Central Railroad of New Jersey to the Philadelphia and Reading Railroad Company he has had charge of the accounts of the said railroad company and the said leased railroads. That he has read the affidavit of Charles E. Smith, annexed to the bill of complaint, in the suit of William B. Dinsmore against the Central Railroad Company of New Jersey, and the Philadelphia and Reading Railroad Company, in the United States Circuit Court for the District of New Jersey, and that instead of it being true, as stated in said affidavit, "that the payment of the rental under the said lease by the Philadelphia and Reading Railroad Company will result in a loss to the Philadelphia and Reading Railroad Company of not less than $1,000,000 per annum, the fact is that by reason of economy in the management of the railroad and the reduction of expenses consequent upon its operation as a joint line in connection with the other lines of the Philadelphia and Reading Railroad Company, the result will be that the said the Philadelphia and Reading Railroad Company will be enabled to pay the rental of $1,100,000, as stipulated to be paid by the said lease, out of the net earnings of the said Central Railroad of New Jersey; and this is demonstrated, in

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the defendant's opinion, by the actual results from the operation of the lease from the first day of June last to the present time; that while it is true, as averred in the affidavit of the said Charles E. Smith, that the said lease will add largely to the liabilities of the Philadelphia and Reading Railroad Company, it is not true that said company is in no condition to assume any further liability with safety; nor is it true that the said lease in its operation will prove detrimental and injurious to the Philadelphia and Reading Railroad Company, but that, on the contrary, by the operation of the said Central Railroad of New Jersey, in connection with the system of railroads operated by the Philadelphia and Reading Railroad Company, it will be enabled to discharge all the liabilities imposed by said lease and render the property demised of greater value to the Philadelphia and Reading Railroad Company. Deponent further saith, that he has read the affidavit of H. G. Harris, annexed to the bill of complaint in the above recited suit; that it is not true, as averred in said affidavit, on common rumor, that the Philadelphia and Reading Railroad Company is in an insolvent condition; that while it is true that said Company was in the hands of receivers, under a decree in the United States Circuit Court for the Eastern District of Pennsylvania, it is also true that said Court, after hearing, discharged the said receivers on the twenty-eighth day of February, 1883, and restored the property of the said company to the managers and stockholders thereof, by whom the said company has been managed since the dissolution of the said receivership; that since the first day of July, 1883, the said The Philadelphia and Reading Railroad Company has regularly discharged all its maturing obligations.

Deponent further saith that he has read the affidavit of Edward Bettle, annexed to the said bill of complaint in the suit before stated, and that it is not true that the general standing of the Philadelphia and Reading Railroad Company is such as not to give any value to its guaranties of any large corporation; that,

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on the contrary, its guaranties of leased lines and of the obligations and stocks of leased lines, have added very greatly to their value: that prior to the lease by said company of the Philadelphia, Germantown and Norristown Railroad, and the guaranty of its stock by the said The Philadelphia and Reading Railroad Company, said stock sold for eighty dollars per share, and is now selling for $110 per share; that prior to the lease of the North Pennsylvania Railroad the stock of said company sold for thirty-six dollars per share, and is now selling for sixty-nine dollars per share; that prior to the lease of the Delaware and Bound Brook Railroad its stock sold for $100 per share, and is now selling for from $135 to $140 per share.

Deponent further saith that he has read the affidavit of W. H. Patterson, annexed to the bill of complaint in the above stated suit; that it is not true that said Philadelphia and Reading Railroad Company is in default in payment of interest as therein specified, but that, on the contrary, the said company is paying the interest in cash upon the said securities, on presentation of the coupons as they mature on and after July, 1883.

And deponent further saith that it is not true that immediately upon the Philadelphia and Reading Railroad Company acquiring possession of said properties, rights, and franchises of said Central Railroad Company of New Jersey, that F. B. Gowen, president of said Philadelphia and Reading Railroad Company, did cause the promissory notes of the said Central Railroad Company of New Jersey to be made to an amount of more than a quarter of a million of dollars, without any consideration therefor, and did carry the same to the city of Philadelphia, and there sell and dispose of them and cover the proceeds thereof into the treasury of the Philadelphia and Reading Railroad Company, to be used for the expenses and financial wants of said Philadelphia and Reading Railroad Company, in fraud of the rights of said complainant as stockholder of the said Central Railroad Company of New Jersey. And all the allega-

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tions in the said bill, in relation thereto, are absolutely untrue.

Sworn and subscribed before me, this 15th day of October, 1883.
W. MUIRHEID,
U. S. Comr.,
Dist. of N. J.

ALBERT FOSTER.

UNITED STATES OF AMERICA,
DISTRICT OF NEW JERSEY, } *ss.*

Personally appeared before me W. A. Church, who, being duly affirmed doth depose and say that he is the assistant treasurer of the Philadelphia and Reading Railroad Company; that he has read the affidavit of Albert Foster, secretary of said company in connection with the suit of W. B. Dinsmore *vs.* The Central Railroad Company of New Jersey and The Philadelphia and Reading Railroad Company and others, and is personally acquainted with the matters and facts therein stated, and of his own knowledge of the same says that the same are true and correctly set forth in the said affidavit.

Affirmed and subscribed before me, this 15th day of October, 1883.
W. MUIRHEID,
U. S. Comr.,
Dist. of N. J.

W. A. CHURCH.

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CIRCUIT COURT OF THE UNITED STATES,

DISTRICT OF NEW JERSEY.

WILLIAM B. DINSMORE,

Complainant,

against

THE PHILADELPHIA AND READING R. Rd. CO., et al.,

Defendants.

Oral Argument on behalf of Complainant by

ROSCOE CONKLING,

On Motion for Preliminary Injunction.

(Trenton, N. J., November 28, 1883.)

NEW YORK:
C. G. BURGOYNE, PRINTER, 57, 59 AND 61 PARK ST.
1884.

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U. S. Circuit Court,

DISTRICT OF NEW JERSEY.

WILLIAM B. DINSMORE,
Complainant,

AGAINST

THE CENTRAL RAILROAD COMPANY OF NEW JERSEY, THE PHILADELPHIA & READING RAILROAD COMPANY, and others,
Defendants.

Before
Hon. JOHN T. NIXON.

ORAL ARGUMENT

OF

ROSCOE CONKLING,

ON MOTION FOR PRELIMINARY INJUNCTION.

(TRENTON, N. J., Nov. 28, 1883.)

May it Please Your Honor:

So far as I can say anything to spare you labor—to aid in that clear and just discernment you are sure to seek, so far I shall go; meaning to speak no word with any other aim, or for effect elsewhere. Six hundred printed pages of affidavits lie before you. Why and how were they gathered and filed? Under permission given before answer. On what allegation? The allegation that the bill was not *bona fide*. Such an objection was final; a plea in abate-

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ment or an answer to that point, went to the root of the matter. Such an issue being made and proved, there was an end of controversy. So, your Honor gave leave, in advance of the answer, to make and prove that defense. Mr. Dinsmore came voluntarily into your jurisdiction, and submitted himself to examination.

Immediately it was disclosed that the defendants did not mean to stand on such a plea, even in the first instance. They answered over to the merits fully. They did more. They put into their answer matters scandalous and impertinent. Exceptions to these offensive matters were promptly filed. The exceptions were argued and sustained. Despite this, the defendants pushed on the taking of affidavits. Your Honor had given them the finger, and they took the whole hand; they went far and wide within the limits of their objectionable answer, and far beyond, for topics of examination.

The pretense of collusion was at once exploded—I measure my expression—exploded by many witnesses—by every witness interrogated in regard to it. Passing far beyond collusion, the defendants strove to prove Mr. Dinsmore's knowledge of the lease beforehand; they strove to prove facts with a view to estoppel, and to laches; they strove to prove the existence of the rights of intervening third persons; they strove to prove that Mr. Dinsmore had loaned his stock, or, in the vivid language of one of their counsel, "poisoned it," so that they could take advantage of it. They asked many persons their opinions of the merits and effect of the lease—persons every one of whom as he admitted was ignorant of the one-sided provisions of the lease, and knew nothing save only that a guaranty had been given of six per cent. perpetually.

A cloud of witnesses were called to state what effect in their opinion such a guaranty standing by itself would have; and what they had heard others in the street say about it. The range of proof was very wide.

Meanwhile a replication was filed, and thus the issue—the whole issue—to be tried, was fixed.

But the affidavits went on, and they are here. They abound with objections. The record shows objections of many kinds—objections to hearsay, objections to evidence which under the pleadings never

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at any stage can become competent. Paying no heed to objections, paying no heed to your Honor's order striking out parts of the answer, paying no heed to the fact that these affidavits are loaded with matter utterly foreign to the case, even at the final hearing, the defendants' counsel come and resort at large to all these so-called proofs, for food, not for argument—civility could hardly say that—but for declamation.

Expense and delay would seem the two aims of the defense.

Let me give your Honor an example. The answer admits, and sets up in strong phrase, that long ago Mr. Dinsmore bought five hundred shares of Jersey Central stock, that he has ever from that day to this owned that five hundred shares. Mr. Franklin B. Gowen insists before your Honor that except as to the shares which stood in Mr. Dinsmore's name on the transfer book, although he owned countless thousands of other shares of stock, he could not be heard as complainant in such a bill—that he can be heard only as he stands on those shares which are in his own name on the transfer book. That is Mr. Gowen's argument. The answer avers that he owned five hundred shares, and always owned them from first to last; that they so stood and still stand on the transfer book, and that there was never any change; yet, in the face of all this, days and days were spent before the learned Examiner, and hours and hours have been expended before your Honor in investigating and declaiming upon the fact that fifteen hundred other and different shares owned by Mr. Dinsmore, although bought and paid for, and endorsed in blank, had not been forwarded to the transfer office, and there technically transferred to Mr. Dinsmore. The learned senior counsel on the other side yesterday loudly asked your Honor how Mr. Dinsmore could be sworn to a bill saying he had one thousand shares when only five hundred shares stood in his name, and fifteen hundred other shares did not so stand. This is all explained in the proofs. The counsel who drew the bill stated five hundred shares; when Mr. Dinsmore came to read it over, he changed the five hundred to one thousand, thinking five hundred a mistake. He knew he owned 2,000 shares, and he thought 1,000 stood in his own name. The fact was otherwise. His counsel had

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been to his business office, he being eighty miles away in the country, and ascertained and alleged exactly the fact. Mr. Dinsmore, without his books before him, was mistaken, and changed the number to one thousand shares; and that is the whole of this mare's nest. Yet, although five hundred shares are as effectual as five thousand, although fifty thousand dollars held by a *cestui que trust* is a sum quite considerable enough to invoke the attention of the Court, much time and effort have been wasted over this trival, and paltry inaccuracy, pointless for any purpose as it is.

And here are one hundred and eleven octavo pages which between two and three days were spent to accumulate, being the testimony of one Faulkner, a part of which your Honor heard delivered; a virulent pretended narrative, relating to matters of no more relevancy to this case than to the consolidated contract touching the Suez Canal.

This mode of conducting an equity proceeding is out of place and unusual, but it is not the most outlandish feature of this motion.

There is yet something still more noticable. The answer being in, the defendants, under color of the leave given them for a single different purpose, with the process of the Court, (*duces tecum*, and other,) brought persons and papers to prove the general allegations of their answer; they have disproved every one of them which a demurrer would not have raised, they have themselves, out of the mouths of many witnesses, overthrown their denials and assertions at large. Having so done, they bring the testimony into Court; they resort to it as a field for declamation; and then all their counsel, without exception, commence and conclude by saying, "Whatever the answer has denied and whatever the answer has responsively alleged, that must be taken as true on this motion." Must it? I humbly submit to your Honor that these affidavits are here, or they are not here. If they are here, they speak as a part of the motion papers. They speak as well for the complainant as for the defendants. If they do not so speak, they cannot be referred to; and were your Honor to eliminate them from the case you would take away, it is safe to say, the foundation of four-fifths of the addresses for the defendants to which you have listened. No, sir! I humbly submit it is

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too late after they have made their allegations, irresponsive though many of them be, and refused to come here upon the bill, the answer, and the accompanying affidavits, which they might have done —after they have tried to prove their allegations and have failed, it is too late in the presence of all this testimony and the use that has been made of it, to go back and say: "We ask you to shut your eyes to everything which disproves our answer, and to confine yourself to what might be said had we come here upon the bill and answer, and upon nothing else."

I assert that if you look at this testimony, you will find that it presents new merits in favor of the bill, and no fact in favor of the defendants, which a demurrer just as well would not have presented. Every material allegation in our bill, is either admitted in the answer, or proved again and again. I employ the word "material," because whether Mr. Franklin B. Gowen took $250,000 of the notes of the Central and negotiated them in Philadelphia, and then devoted the money to one purpose or another, is, *so far as this motion is concerned*, wholly immaterial; and as your Honor has not forgotten, this allegation was disclaimed by admitting it not proved, when the papers were first presented.

Leaving that out as immaterial now, the bill alleges nothing pertinent to this motion which is not either admitted, as I will show you, in the answer, or proved again and again, not only by witnesses, but by documents and records annexed as exhibits. This proof, so called, being here, I shall look at it for a narrative and description of the transaction you are asked as Chancellor to sanction, the transaction you are asked to accept, and pronounce fit and defensible in a State to which other States make obeisance for administration of law as impartial and intrepid as can be seen in Westminster Hall.

The Central Railroad of New Jersey was prosperous and affluent until 1877. Its annual dividends were ten per cent. In 1877 depression came from falling off in the coal traffic. Embarrassment followed, and the Lehigh Valley Coal & Navigation Company filed a bill against the Central, and prayed a Receiver. Now, the Lehigh Valley Coal

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Company is, one of these innocent third persons, these lamb-like "other people," who in ignorance, acting upon this lease, have, we are told, acquired vested rights. The Lehigh Valley Coal Company is the corporation which had with the New Jersey Central a perpetual lease, and when the seizure, which we seek to avoid, took place, that lease was in form made over again, as you might renew a note at the bank, and the name of the New Jersey Central was stricken out, and the name of the Philadelphia & Reading was put in. For what? I have a right at this moment to urge this question. The lease at which this bill is aimed assigned the lease of the Lehigh Company. It carried the Lehigh Coal Company's demise to the Reading Road. Why was it with hot foot, immediately on the 29th of May, although the last acknowledgment of the lease in suit was not until the first of June, before it was even formulated on paper–why was it that the Lehigh lease in perpetuity running to the Central, transferred by this master instrument from the Central to the Reading, was ceremoneously cancelled, and given up, and another lease of the same tenor and effect taken in the name of the Reading? Was it to involve and ensnarl the transaction, so that these counsel might come and say what they have said to your Honor? Was not this a contrivance to introduce third persons, as a shield and cloak?

The Lehigh Valley Coal Company was the party who filed the bill against the Central asking for a Receiver.

MR. JAMES E. GOWEN (interrupting): You make a mistake in the name of the company. The Lehigh Coal & Navigation Company is a distinct company.

MR. CONKLING (resuming): A name will not have much influence in this case. In the imbroglio and muddle which is part of this cunning performance, I may have fallen into an error about a name. I know the thing I am talking about, but if mistaken even in a name, I am grateful to the counsel for correcting me. I am speaking of the corporation which filed a bill to sequestrate the Central in 1877, the same corporation which in 1883 came forward, incarnated by Mr. Franklin B. Gowen, and proposed to take the Central out of the hands of the Receiver, into which it had put it. That is the corporation now in question.

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Judge Lathrop was appointed Receiver of the Central. He went to Mr. Dinsmore for a loan of $250,000. Mr. Dinsmore gave it promptly, and has never called it in. Judge Lathrop explained his plans, told him he was confident that he could put the road again on its feet, that it could resume its career of prosperity, and asked help; and Mr. Dinsmore, in addition to loaning the $250,000, bought $200,000 of the stock. The learned ex-Chancellor—always excusable because always upright in intention—told your Honor yesterday that the Adams Express Company had paid for this stock, although Mr. Dinsmore afterwards reimbursed the money. The Adams Express Company never paid one farthing. One witness, probably confounding this with some other transaction, did say that he thought Mr. Dinsmore telegraphed from Boston he would be back the next day, and that if the Adams Express would advance a sum for him he would repay it the next day. It turned out, however, that Adams Express Company did not accommodate Mr. Dinsmore even for an hour by the advance of a penny. Mr. Dinsmore paid for all the stock with his own check.

Unfortunately Judge Lathrop died, and Mr. Little, a lawyer, who disclaims much railroad experience, came in. Time went on, and the Central revived, even under the novitiate of Mr. Little. It became abundantly solvent, so Mr. Little swore again and again, with a broad ample margin of surplus in its current earnings up to April, 1883, and then still increasing. I shall stop to read nothing as a rule unless my learned antagonists doubt the accuracy of my statement; if they do I welcome interruption—I will not read the bill. On page 12, it avers that at that time, in April, 1883, the time of the inception of this rapacious seizure, the Central could pay, and continue to pay, ten per cent. to its stockholders. How does the answer meet that allegation? It nowhere denies it, but it says, page 7, in substance: "These defendants *hope* the said allegation is true, the same ought to be true in order to make the said lease profitable and remunerative to the said Reading Road." Thus it stands, and it is again and again established that at the time when these defendants swept this vast property away, in addition to all its great estate, the Jersey Central had an earning faculty, an actual possession of

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traffic and trade, equal to ten per cent. net upon all its stock.

April, 1883, came. The road was still in the hands of the Chancellor. The Chancellor, as you have been reminded, had power to lease or sell. More exactly speaking, he had power to authorize the Receiver to lease or sell. I beg your Honor to remember, that solvent or insolvent, the Chancellor had the power to sell or to lease or authorize a lease of the New Jersey Central. No inquisition was necessary. No exhaustive, expensive, ponderous proceeding costing thousands of the stockholders' money, was necessary to ascertain how solvent or how good, or how much the reverse, the New Jersey Central was—the Chancellor, be it better or worse, had the absolute power, the absolute duty to demise it to anybody, who, on fair and just terms, would take it, or even to sell it (for it had been four months in the hands of the Receiver), to anybody who would pay what the law and your Honor knows as a sound price or rent for it.

Bearing in mind that if the Reading or anybody else would enter into a just lease, the Chancellor was empowered and bound to allow it, I ask your Honor's sharp attention to what was done and what was not done. Did Mr. Gowen, Mr. Knight, and the "allies," as they are called in these papers on the other side, take the short, open, honest road? Did they, without expense of any sort, go to the Chancellor and say, "Here is a party ready to lease this road?" Did they go with this lease and present it to the Chancellor, and ask him to authorize the Receiver to make it, to make it in a mode which, had the lease been fair and just, would have saved all questions of stockholders' votes, of proxies, of Board of Directors, of ratification and details of every sort? Was that done? No, sir! Why was it not done? Why was it shunned?

The learned advocates on the other side have been pleased to say something of the "courage of counsel." Had any counsel on that side the courage to present to the Chancellor of New Jersey this cut-throat deed? Is there any counsel on the other side who did not know that it would not endure the gaze of a just Chancellor for one moment? The position and state of the Reading Road were too well known,

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the terms were too unequal, and no man dared to propose to the Chancellor that coal lands of vast area and value, and franchises in perpetuity, rolling stock and material, $50,000,000 of assets, should be given over absolutely to a shaky corporation for nothing except a six per cent. guaranty, so arranged that the moneys of the lessor should be used gradually to diminish and finally to extinguish even the rental. What was done?

Was the Chancellor apprised of any latent purpose? Was a lease even hinted at? Much more, was *such* a lease avowed? They have broadly intimated to your Honor two or three times that a lease was alluded to. On the contrary it was secreted from the Chancellor. No mention of any connection with the Reading was made. We will show your Honor that it was secreted. The Chancellor's ideas of electing a Board of Directors, and of the uses of doing so, for that is what they applied to him for leave to do, were well known. These parties had known them for a year. They set out in their answer an opinion of the Chancellor written in April, 1882. It appears in these words on page 10, folios 10, 20 and 30.

"The property in the hands of the Court in this "case is valued at about $50,000,000. By statute "the Court is required *to operate the road for the* "*benefit of the public*, Revision. page 196, paragraph "106. And without the statute the same action "would be taken in view of the obvious necessity of "thus keeping the trust property in proper con- "dition *and making it as productive as possible.* "There are many very important respects in which "*the action of the board as representatives of the* "*company may prove exceedingly useful to the* "*court in administering the trust;* and in many of "such matters the future of the company, after it "shall have passed out of the hands of the Court, "may be most materially affected by the action of "the board. It is therefore eminently proper that "the board should be the representatives of the "*stockholders*, and *therefore that a proper oppor-* "*tunity should be afforded to the latter to make se-* "*lection of their agents.* Moreover, should the "Court deem it advisable to turn over the property "to the company, the stockholders must receive it "by the hands of the board. Therefore there must

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" be directors, and in such case, as well as generally,
" the board should *be true and lawful representa-*
" *tives of the stockholders whose property they are to*
" *control and administrate.*"

Knowing that this was the understanding of the Chancellor as to the purpose of electing a Board of Directors, Mr. Gowen and his "allies" applied to him for leave to elect directors, never intimating or disclosing that the Reading Road, or any other road, was to take possession—never hinting at any such project.

About this time, as the proof shows again and again, and as the answer admits in substance, these "allies" began stealthily to buy up the stock of the New Jersey Central in order—such is the confession—to control the Board of Directors, and in order to put in directors who would make this lease. Your Honor may think this a strong statement. The admission is sworn to in this answer. Your Honor knows, in view of all the facts, that it was a fraud. The pen that drew such an admission in the answer was a dangerous weapon. Mr. Dinsmore had no more knowledge of this intention to lease the Road than your Honor had. But, knowing the danger of the allegation, if Mr. Dinsmore was not privy to the transaction, the draftsman of the answer at once proceeds to inculpate him. Here are the words: first, on page 9, folio 20:

" With this view the large capitalists, owners of a
" *large* portion of the Reading stock, commenced buy-
" ing up the stock of the New Jersey Central, and
" finding that a large portion of the stockholders who
" continued to hold their stock favored controlling the
" New Jersey Central by lease, or by some like ar-
" rangement, *they agreed together* to take the Central
" out of the hands of the Receiver by paying or secur-
" ing its floating debt, which could only be done by
" the Court of Chancery modifying the injunction *so*
" *as to permit the then existing stockholders to hold*
" *an election of directors, and procure a board favor-*
" *able to the views and objects hereinbefore stated.*

" *That the said lease was in contemplation, and he*
" *never made any objection to the same.*

" That by a second order, made by the chancellor
" upon the petition of the directors, a second *election*
" was held on the 11th of May, 1883, at the annual
" meeting of the said The Central Railroad Company
" of New Jersey.

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"That it was generally understood that the matter "of the lease would be brought before the stock- "holders at that election, and proxies were *prepared* "*with that view*, and that the directors elected would "cause such lease to be executed, and the directors "were elected *for that particular purpose*."

It is also averred that E. C. Knight bought his stock as part of the scheme to get possession of the Central Road.

Mr. Franklin B. Gowen resented with some warmth, my having asked a question in Philadelphia implying that officers of the Reading Road had bought up Central stock to obtain possession of the road; and with a solemnity calculated to silence contradiction, he told your Honor that no officer of the Reading Road had ever bought one share of the Central stock until after the lease.

This sounds oddly. The answer and the proof confute it. It is proved not only that Mr. Knight, not only that other directors of the Reading Road—one, at least, on May 29, 1883, and others earlier—but that contractors, and the sons of Reading directors, bought a good deal of Central stock. Every man who says he bought it, as imports pay tribute to the customs, dropped his proxy into the hands of Mr. Knight and Mr. Gowen, save only two—one who bought twenty-five shares was overlooked, and another who bought forty shares, and did not get the certificate until after the books were closed, and therefore could not give his proxy. And further, those who thus bought, bought in connection with the Reading Road "allies," and gave a proxy, as a part of the transaction, to vote for the lease; and all this was done before the lease was ratified, and much of it weeks and months before. One witness—Mr. Ferdon—testified that Mr. Knight went out and bought up the stock for minors, for boys under twenty-one years of age, putting up a margin himself, and then putting the stock in the hands of brokers and trust companies, who paid for it in the names of these boys; and then Mr. Knight and Gowen voted the proxies of the stock for the lease. Mr. Lippincott, director of the Reading, bought; Mr. Lewis, a Reading director, or his son, bought; Mr. Williamson, a Reading director, bought; Edward C. Knight, the

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most active director, except Franklin B. Gowen, bought, not only in the name of other people, but, as already stated, of minors in several instances.

Let me go on with the narrative. April, 1883, is the time of which I speak. Mr. Franklin B. Gowen, President of the Reading Road, and as he told you, its salaried counsel, presented, in the name of the Lehigh Coal & Navigation Company, a petition to the Chancellor, and began a prolix and exhaustive proceeding to get the Central out of the hands of the Chancellor and Receiver. The proceeding was based on *solvency alone*. Now I have to call your Honor's attention to three pamphlets which I will hand you if you will allow me. They are exhibits. Mr. Little, the Receiver, was examined in the proceeding by Mr. Gowen. He swore that "the Board of Directors of the said company "(the Central) has caused a faithful and thorough ex- "amination to be made in conjunction with the Re- "ceiver and with his co-operation into the financial "condition and earning power of the said company, "and into the value of its assets and all properties in "the possession of the said Receiver. Your petition- "ers are satisfied, from such investigation and from "the present business operations of said company, "that *the said company is solvent, and able not only* "*to earn more than sufficient to meet all its fixed* "*charges, but to meet and discharge all of its obliga-* "*tions as they become due, and that the present float-* "*ing debt is not larger than is usually incident to a* "*corporation transacting a business of such magni-* "*tude as that conducted by the said company.*"

Mr. Little was not alone in so testifying.

"STATE OF NEW JERSEY, SS.:

"Franklin B. Gowen, being duly sworn, on his oath saith that he is one of the directors of said Central Railroad Company of New Jersey, and that the facts stated in the above and foregoing petition are true to the best of his knowledge and belief.

"Sworn and subscribed before me this 4th day of May, 1883."

That, your Honor, was before any man had ever said anything openly about giving the Central over to the Reading Read. When this oath was sworn,

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there were but three men who had been let into the secret—only three, so far as we can discover.

(Reading) "I, Henry S. Little, Receiver in above case, admit the facts stated in the above petition to be true, and pray that the prayer of the said petition may be granted, &c."

The Chancellor referred the petition to Joseph Bedle, a Special Master. Mr. Franklin B. Gowen, as counsel, conducted the proceeding. He called the auditor of the company, the special expert in that regard, and proved by him that the Central was not only solvent, but that it was constantly and increasingly realizing a revenue from its business which would not only pay dividends on the stock, but leave a large surplus besides. Mr. Little, as before stated, was examined, and I shall read some of his answers. They will surprise your Honor, after what has been said of the prostrate, ruined, hopeless condition of the Jersey Central.

Mr. Bedle made a report as Master, to the Chancellor. It is convenient to read from that, though the same matter is a second time proved in the affidavits —proved by Mr. Little himself, and by the records of the Court.

I first read, page 370, from the interlocutory decree made by the Chancellor on the 19th of May. "It is ordered, &c." (The decree directed the Receiver to deliver up the estate to the New Jersey Central). Now comes the report of the Receiver. He reports that he has received one million dollars of the first series of the Consolidated Mortgage Bonds of the Philadelphia & Reading Railroad Company, and two million dollars of the second series of Consolidated Mortgage Bonds of the said Philadelphia & Reading Railroad Company." (I have forgotten whether they were 5's or 7's); "and that be- "ing satisfied with the said securities, I am ready "upon the order of the Chancellor to surrender. *I* "*further report that the present market value of said* "*securities so deposited with me as aforesaid is* "*upwards of $2,000,000.*"

I may allude to this again, but here I bring to your Honor's notice the fact that the Receiver reports this very year, in May, these first and second mortgage bonds or consols of the Reading Road, taken together, worth only 66 2-3 per cent.

MR. JAMES E. GOWEN: You are entirely mis-

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taken. The second mortgage bonds of the Reading Railroad were sold at about 57; and the first mortgage bonds 67. I do not think you want to make a wrong statement.

MR. CONKLING: Not only I do not want to, but I have not done so. I repeat my statement. I say that the first and second consolidated mortgage bonds, as read from the report, of the Reading Road, for three million dollars, were by this Receiver, then and now acting with the defendants, estimated and stated to the Court to be worth 66 2-3 per cent. They bore 5 per cent. interest at least. The Government has bonds afloat bearing three per cent. They sell for a premium. Here were 5's of a corporation which they vehemently assert is solvent—a corporation whose naked guaranty is the sole consideration supporting the lease, and this partisan, this "ally," says they are worth 66 2-3 cents on the dollar. And this is solvency! The learned counsel will never make any business man believe for one moment that 5's, if trustworthy, would not have been par, or nearly par, in the market.

I now call your Honor's attention briefly to the testimony of Mr. Little, Mr. Gowen putting the questions:

"Q. State whether or not, as such Receiver and President, you have made yourself familiar with the accounts of the company?

A. I have.

Q. *In your judgment, is the corporation solvent at present?*

A. *It is.*

Q. *State whether it has, during the last year, earned more than sufficient to pay all the interest upon its fixed charges?*

A. *Yes, sir.*

Q. *All the interest due upon its indebtedness of every kind?*

A. *Yes, sir.*

Q. Are you sufficiently familiar with the accounts of the last year, as compared with those of 1881, *to state whether or not the earnings of the last year were in excess of those of the previous year?*

A. *Yes, sir.*

Q. *They were in excess?*

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A. *Yes, sir; there is an increase this year upon the last.*

Q. Have you any such general knowledge of the assets of the company as shown upon this balance sheet, as to know *whether the real value of the property exceeds that, as charged upon the balance sheet?*

A. *I know that there are some items that are more valuable than the amount at which they are charged in the balance sheet.*

Q. *Can you state that they are largely in excess?*

A. *It is my judgment.*

Q. Are you able to give some idea of what the stock actually has been selling for in the market during the last year?

A. About 63; that is the least, from 63 to 81.

Q. Per cent. of its par value?

A. Yes, sir.

Q. *For the last month what has it been worth?*

A. *From 76 to 81; average probably about 77.*

By the Master: Q. *I wish you would explain a little as to why you conclude that the company, the corporation, is solvent. Please give your reasons for that?*

A. *Because we are earning more than enough to pay the fixed charges, and we have made an arrangement for an increase of business for this year, and the stock is selling for some 80 per cent.; also the company has been able to pay its interest upon the fixed debt out of its earnings, and has been able to pay its running expenses, as well as repairs and necessary improvements to keep the property up.*

Q. What do you include in the statement of the earnings of the last year; what period of time?

A. We include from the first of January, covering a portion of Judge Lathrop's receivership and my own, from March 4th, 1882, to December 31st, 1882, inclusive.

Q. *And the increase of earnings continues proportionately from that time to this, from the first of January last to this time?*

A. *Yes, sir; we have gained about two hundred thousand dollars up to the first of May, over last year.*

By Mr. Gowen: Q. *Mr. Little, assuming that the Chancellor charges the payment of the floating debt upon the property of the company, thereby mak-*

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ing it a lien and first charge, have you any doubt but that almost immediately the parties holding that floating debt would surrender the Receiver's obligations and take those of the company?

A. *If any one did not, it would be very easy to get the amount of others upon such a security.*

BY THE MASTER: Q. From your experience in the management of the receivership, during the time you have held it, what is your judgment as to the ability of the Central Railroad Company, *from its earnings, to pay the interest on the funded debt and all its current floating liabilities?*

A. *I think the company is quite competent to do it.*

Q. *In your judgment, can it do it?*

A. *Yes, sir.*

BY THE MASTER: Q. *If the property is turned over into the hands of the directors, have you any doubt of their ability, from the resources of the company, to pay all its current expenses and the interest on the floating debt, and to carry the floating debt without any difficulty?*

A. *I have no doubt they can do it very comfortably.*

BY MR. GOWEN: Q. If the company was restored to credit, so that its stock would come to par, and it could sell its bonds, new bonds, at par, it would be a very easy matter then, either with stock or bonds, or both, to fund the floating debt into a permanent form of bonds or stock?

A. Yes, sir.

Q. *Do you think that the termination of the receivership, in order to give the company an opportunity of dealing with its own affairs, is an important step in restoring it to such credit?*

A. *I do; the company would do it better than the Receiver.*

Q. Do you think that *the amount of the present debt* of two million sixty-two thousand dollars *is an excessive amount* of floating debt for a company having so large a capital and doing so much business?

A. *No, sir.*

Q. *And you made this statement after, in the language of the petition, a careful and faithful examination of all the affairs and interest of the company, assisted by the Board of Directors and the*

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Auditor, who co-operated with you in making the investigation?

A. *Yes, sir.*

Q. I now call your attention to the exhibit annexed to this report, being 'Statement of earnings and expenses of the Central Railroad of New Jersey, for the year ending December 31st, 1882:

Gross earnings	$11,312,296 63
Operating expenses	6,221,225 18
Net earnings	5,091,071 45
Interest, rentals, taxes, etc	4,493,743 92
Surplus	597,276 53'

Does that statement, in reciting interest, rentals, taxes, &c., *include all the interest and all the rentals?*

A. *I think so, sir.*"

I ask your Honor whether these questions and answers do not suggest a purpose to inspire the Master, Mr. Bedle, and afterwards the Chancellor, with the belief that the setting of the Central on its feet was to the end, and solely to the end, that it might have the advantage that would come from having a Board of Directors manage its own affairs?

And further, I ask your Honor whether such pretensions would have been held out, if it had not been intended to secrete the real and ultimate design, and to put the Chancellor on a false scent?

I next call your Honor's attention to the fact that Mr. Little, when pressed because of an averment of the answer that somebody knew before the meeting of May 11 that a lease was meditated—when urgently pressed on this point, Mr. Little said that the first man he ever heard speak of a lease, was Edward C. Knight; the second man he ever heard speak of it was Franklin B. Gowen, and the third man he heard speak of it he could not name.

He was asked, "When did you hear them? About "the time of the meeting. Where? First riding in "the train, siting in the seat with Mr. Knight. He "told me that a lease, if the road could get it, would "be a good thing. Anything more? No. When did "you hear Mr. Gowen speak of it? A few days after-"ward. Who next did you hear speak of the lease "of the New Jersey Central, if anybody? Well, I "have—my recollection would be Mr. Gowen, I

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" think. Do you remember when that was? No;
" I do not. Was Mr. Gowen a stockholder in the
" Reading Road? I presume so; he was president of
" it. He was president of it and a director? Yes,
" sir. I mean this: the earliest man was Mr. Knight,
" the second earliest Mr. Gowen. Question: And
" now I ask for the third? Answer: I cannot re-
" call."

And yet the counsel persist in asserting that everybody knew it, everybody talked about it long before, and that long before the New York papers "said so." The excuse for my learned friend, the ex-Chancellor, is that he has not read the evidence, and did not hear it delivered. There is no pretense that until after the meeting of May 11, anybody, even in the charmed circle, talked aloud about a lease—even *a* lease. There is no pretense of such a thing in the proofs. Let me be exact in my statement. About that time, say the day before, May 10—there is no evidence that one man beyond the active managers of the scheme had ever heard of it. I will show your Honor in another connection, that when the sixth of July had almost come, a gentleman who represented upward of $200,000 more of these shares, 2068 or 2045 shares, had to go and demand an inspection of the lease, acting on a rumor. And when the meeting of July sixth occurred, there were but four men on this planet who have been heard from, who had ever seen the paper, or heard its contents; one was Mr. Little, one was Mr. Gowen, one was the ex-Chancellor, and the other was Mr. Mills, who went and demanded it.

Your Honor has been told again and again by three of the counsel that Mr. Dinsmore is the only stockholder who objects; and yet Mr. Mills objected to a lease at the May 11th meeting, when the idea was first broached of even *a* lease, and insisted they had no right to vote upon a prospective lease, that the lease should be brought in and shown; and Theodore Little, who represents the estate of another Mr. Vail, holding four hundred shares, did the same thing. Mr. Mills, conscientious as he seemed, acting as trustee, afterward employed counsel to file a bill—I have not seen it, but such a bill as this, (he being a resident of New Jersey) in the Court of Chancery of New Jersey, to set aside this lease making allegations against it

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such as those here, and also others of which at the time we did not know. Let me remind these learned gentlemen that if by the attempt to "poison" Mr. Dinsmore's stock, or if by what I will not call detective prying into the relations of personal courtesy between Mr. Green and a brother lawyer in Philadelphia for whom he has often done corresponding favors, if by spying out the incident of his asking a trifling favor, and spreading out such purely personal matters as grave reason for pretense of collusion —if by such "snapping up of unconsidered trifles," they could succeed in their technical endeavors, they would only "jump from the frying-pan into the fire." For one or both of these two trust estates, by a complainant standing in double trust acting upon his conscience and his honor, for widows and infants, has filed a bill in a forum where the laws of New Jersey also prevail, and where catching at these straws will not be possible.

In the Lehigh Company's proceeding, a decree was made on the 19th of May, 1883—an interlocutory decree—the final decree was made on the 25th of May. The injunction stood until that time. Mr. Franklin B. Gowen, as Mr. Little testifies—I will not stop to read it—came in before the Chancellor with a pledge that in three months, if the order was granted releasing the receivership, the floating debt should be paid. The answer virtually admits this. That is what these $3,000,000 of securities were to respond to. The three months rolled around and the debt was not paid. They went to the Chancellor to get an extension. He refused it; yet—(perhaps this will surprise you)—not one farthing has been paid to this day, except from the moneys and earnings on the Jersey Central, by the check of the treasurer of the Jersey Central. But the Reading Road and its president—the decree saying it should be done within three months—undertook as one of the conditions of getting the road out of the hands of the Receiver, to pay and satisfy the floating debt of $2,065,000 in three months. Notwithstanding this decree and pledge, June, July, August, September, October and November have gone, and a little over half a million has been paid (one-quarter or about one-quarter), and every farthing of this has been paid with the money of the New Jersey Central. I will not stop to read you

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what Mr. Little said about his efforts to induce fulfilment of the pledge. He says he has done everything except to take legal proceedings. He has dunned and prodded, and whenever he could get a dollar paid, he has done so; for the last three months he has not been able to get a cent.

The Reading Road is in default in this very transaction, and yet it comes here by counsel to talk about its guaranty, and boast how good it is!

Now what was all this costly and troublesome proceeding for? It was wholly needless and useless to enable the Chancellor to authorize an effectual lease; and the real motive and purpose of it, your Honor will hardly be able to ignore after hearing the argument yesterday to the effect that this lease was made in good faith as a matter of fact—in good faith under claim of right, and under color of law. I think such a contention must bring your Honor to consider whether the transaction was in good faith. The Chancellor being full-armed with power to lease or sell; it being his right and duty to lease to any solvent party upon any fair terms—that being the predicament, concealing their real purpose, not going to the Chancellor with the truth, they went and asked for something else—asked on the ground of *the solvency of the Central*, and on this ground alone, that it be reinstated and set free.

Thus they initiated an inquiry whether the road should be taken out of the hands of the Receiver. Then they presented proof persuasive to the Examiner and through him to the Chancellor, that it would be promotive of the interests of the Central to have it managed by its own directors; they proved its abundant ability to sustain itself, its increasing earnings and wealth, and they went to the Chancellor, *and on such showing*, obtained an order discharging the receivership. They agreed as a condition to pay the floating debt, hypothecated securities, and agreed to pay in three months without default. After this was done, involving as it did a large outlay from the trust funds involved, they gathered proxies and carried on a stealthy campaign of uncertainty and prolixity, of meetings of stockholders, and of contrivances, to achieve the lease. To do this and enround it with defenses, they simultaneously

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changed without lawful need or excuse leases running to and held by the Central, and now they come and cry out that these "third persons" have intervened.

Was all this an honest, fair transaction? If the lease was fair, why not present it to the Chancellor? Why not take the lease from the Receiver? Why not openly invoke the power which the Chancellor was authorized to exercise? Why resort to surreptitious, protracted, deceptive means, when anybody, lawyer or layman, could go quietly into the Chancellor's chambers and say "the Reading Railroad Company offers to take the New Jersey Central on such and such terms?" Any one could have done it, without delay and without expense.

Mr. Little testifies that there never has been a time from 1881 until this moment, when the running arrangement now existing under the lease would have been profitable to the Jersey Central. He says it would not have been in 1881, in 1882, or in 1883; that the same traffic, the same running arrangement, the same thing, would not have been desirable or profitable to the Central; and he swears to it again and again. Mr. Little says other significant things. He says the Jersey Central will earn seven per cent. next year, will earn eight per cent. the year after; and he says in five years this lease will be one of the best railroad leases that was ever heard of. Your Honor has heard of railroad leases which pay 25 per cent.; and those which pay 15 or 20, are common. In five years this is to be one of the most golden harvests that a lessee ever reaped. I agree with him, as I did on some other points.

They got the Chancellor to "relax" the injunction, not to release it, as it has been printed in the testimony. We took care to compare the original papers, and the order was to "relax" the receivership for one purpose and for one only. That was to enable the stockholders on the 11th of May to elect a Board of Directors of nine members, and to do nothing else. Now, what would your Honor imagine, knowing what you must know of human perversity and deviltry, what would you imagine these men did under this order? They were authorized to hold a meeting of stock holders to choose directors, nine in number, and to do that only.

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They published a call and notice for the meeting in the "New York World," on Wednesday, May 2, 1883. I want to read its every word to your Honor: "Office of the Central Railroad of New Jersey, 119 "Liberty street, New York, April 11, 1883." That was on the last day to publish—"Notice is hereby "given that the annual meeting of the stock-holders "of the Central Railroad of New Jersey *to elect nine* "*directors, to serve for the next year ensuiug, will be* "*held at the office of the Company, at Jersey City, be-* "*tween the hours of 12 M. and 2 P. M. on Friday,* "*May 11, next.* The Transfer Books will be closed "from Friday the 12th instant to Saturday the 13th." That is all. The published notice of the meeting did not contain even those well-worn, stereotyped words: "and for the transaction of such other business as may be brought before the meeting." Nine directors would be chosen; that was the end all and be all.

My friend so far forgot himself yesterday as to argue that the published notice gave Mr. Dinsmore presumptive or constructive, if not actual, notice of the concealed lease. I need not put the inquiry, how could Mr. Dinsmore infer or suspect from the notice that trustees would spring something else on the meeting? Some men might, on receiving a notice such as was published, have suspected such a piece of double-distilled rascality, but not William B. Dinsmore. "Evil to him, who evil thinks." No man who knows Mr. Dinsmore, will charge him with assuming that his neighbors are scoundrels without proof. It would not be like him. He is a manly man. Yet the answer at page 11—I will not stop to read it—admits the concea'ed purpose—admits that when the notice was published, and *when the meeting was called, the actual purpose was to authorize the making of this lease, and to bring in a Board of Directors pledged to do it.* It says that *the directors were elected for that parlicular purpose;* and three counsel have argued to your Honor that so fixed and matured was this hidden design, that Mr. Dinsmore is chargeable with knowing it, although on his oath he said, in his bluff, frank way, and declared again and again, that he never heard of such a thing, that he never dreamed of such a thing, that he never suspected such a thing, and that no floating suspicion of the kind had ever crossed his mind.

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Mr. Theodore Little was present at that meeting on May 11, and Mr. Mills, as trustee, attended also, and they both voted for these directors. The question was asked: "Did not you know or suspect when you voted for these directors that they were going to make a lease to the Reading? No, sir." And when appealed to by Mr. Gowen and Mr. Little to vote for *a* lease, *some* lease, they said, under no circumstances, and Theodore Little added: "I do not know what the lease is to be; if properly guarded, I might favor it." There should be no voting blindfold here; no voting about an uncertain lease or a lease yet to be. And both these gentlemen said: that in voting for these directors, so far from knowing they were pledged to do this thing, they voted in the full belief that the directors conscientiously and fairly, if such a proposition was ever made, would consider it impartially as a new proposition.

I come to the next step. Mr. Knox, the Treasurer of the Central, was sent out as ambassador to collect proxies. I acquit Mr. Knox of bad faith. I prefer to believe he was imposed on. It makes no difference in this case whether or not he was. He went for Mr. Dinsmore's proxy, and he addressed himself to Mr. Babcock. What do you think he told Mr. Babcock? Anything about the lease? So far from it, he told him that which excluded the idea that any lease was to come before the meeting. Mr. Babcock said he did not know whether Mr. Dinsmore would send a proxy to Mr. Gowen and Mr. Knight and Mr. Little to vote for directors they favored. Mr. Babcock said: "Mr. Knox, are you asking proxies from anybody else? No, we are not asking other proxies; in fact, they don't want them; they have proxies enough to control the election of their ticket. They want Mr. Dinsmore's proxy as matter of courtesy." Mr. Babcock went and told Mr. Dinsmore that they were not asking proxies of other people; that they had proxies enough to elect the directors they favored; and that was all there was about it, and that the only point was a matter of courtesy; that Mr. Knox said it was a matter of courtesy if he would send his proxy. Then Mr. Dinsmore said: "I won't send a proxy like this. I will confine it to this one meeting, and I will not have any loose end about it." He was in a hurry, as he was leaving town. He

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struck out some words from one proxy, and left it for somebody else to strike out the words in the others. When the proxies were produced, on his examination, he said: "I see my pen did not go far enough. I should have struck out additional words. I supposed I had until I saw it now."

Pretty soon Mr. Knox came around for the proxies for the meeting of July 6. Now somebody in this case has ventured to insinuate that Mr. Dinsmore agreed to a lease on the 11th of May, and thus authorized the sale, and that he has turned around since and disclaimed his act. Could your Honor look at this testimony you will find that a more truthless or vicious statement of fact could hardly be made. Your Honor will see that the reverse stands out plainly in all this evidence. Mr. Dinsmore was surprised and thunderstruck when he learned the use that had been made of his proxy, which he had given with the assurance, not only in the proxy, but from the man who came for it, that it related only to the election of directors—Knox giving the assurance that they had enough proxies already to choose the directors, and that it was considered only as an act of courtesy, that it would be gracious in him to send his proxy. I say his amazement was utter when he learned that these men, who accepted this proxy as a token of courtesy, had in his absence, in his ignorance of their intention, perverted it, and voted upon a wholly different question, and in favor of some instruction to enter into a lease.

Somebody, other than Chancellor Williamson, held the pen when this extraordinary document was contrived. The proofs have not disclosed who it was, and evidently ex-Chancellor Williamson was not the draughtsman, because on the 26th of June, in the language of Mr. Franklin B. Gowen, he "hacked and slashed at it a great deal," and returned it with a letter on the 26th of June; that after the road should be taken out of the hands of the Receiver, it would be competent to execute it as he had changed it. This letter was a private matter brought here. Then your Honor is asked to suppose, or guess or assume, that all the objections that ex-Chancellor Williamson made to this monstrous lease were obviated before it was executed. Who proves that? With all the heat of argument upon him, with all his bias as

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counsel, I would run the risk of putting the ex-Chancellor in your chair as sole Referee, and submitting to him on his judgment and honor as a lawyer whether the lease, as it now stands, is worth the paper it is written upon. There are some things in his argument which warrant my saying that he smote this instrument yesterday so as to destroy its claim to validity, although his associates did not seem to notice his statement. He wrote on the 26th of June that, if it were sufficiently altered, he thought it might stand. Evidently somebody else had fabricated it. That somebody stands in the shade—the Junius, perhaps, of the proceeding.

When Mr. Knox came for the second proxies, Mr. Babcock told him that Mr. Dinsmore had heard about this scheme of a lease and he was utterly opposed to it. I want your Honor to hear what Mr. Knox said. Mr. Knox said: I am sorry for that, because this lease, if they can get it, *will save the Reading Road, and they are very anxious about it.* Mr. Babcock said: I will talk to Mr. Dinsmore about it, but he never will agree to it.

May 11th, 1883, the "allies" met under an order I wish now to read:

"IN CHANCERY OF NEW JERSEY.

"Between the *Lehigh Coal and Navigation Com-*
"*pany*, complainants, and the Central Railroad
"Company of New Jersey, defendants.

"Upon opening this matter to the Court, by Benja-
"min Williamson, of counsel with petitioner, on read-
"ing and filing the petition of Henry S. Little, Presi-
"dent of the Central Railroad of New Jersey, veri-
"fied the ninth day of April, 1883, *praying for au-*
"*thority to hold a meeting for the election of direc-*
"*tors and officers of said railroad company;*

"It is, on this tenth day of April, 1883, ordered that
"the injunction heretofore issued against the Central
"Railroad Company of New Jersey in this cause be and
"the same hereby is *so far modified and relaxed as*
"*to permit the directors of said company to meet for*
"*the purpose of appointing a place for the election of*
"*nine directors, of appointing three inspectors to pre-*
"*side thereat*, of closing the stock transfer books for
"twenty days previous thereto, and for such other
"purposes as may be necessary *in the premises.*

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"And it is further ordered that such injunction be "and the same is so far modified and relaxed as to "permit said company to hold *an election pursuant* "*to its by-laws, on the 11th day of May, 1883, and to* "*permit the directors elected thereat to organize* "*the new board by the election of officers.*

"April 10, 1883.

"THEODORE RUNYON,
"C."

Mr. A. G. Richey offered a very ingenious and significant resolution. He moved that the stock vote be taken on the resolution at the same time as the vote for directors. Your Honor sees that these two votes were thus to have been married together, as the French say. They were to be tied fast to each other, and this wedlock of dual votes was to be by the same deposit of ballots, share for share. Does your Honor see any reason for it? Do you see anything that reminds you of the fact that on the 29th of May, before the lease was even formally executed, the ceremony was swiftly enacted of saying to six thousand employees: "You are no longer employees of the Central Road; you are employees of the Reading Road," so that counsel might gravely come and tell your Honor that these thousands of employees were "discharged," and that the Lehigh Valley Coal Company has, under a like hollow ceremony, "acted upon the lease?" Your Honor must see the purpose of so blending and twisting together these different transactions that they could not be segregated. This was not accident or chance—it was "railroad law." These actions were not tyros—they were all railroad managers, railroad experts, railroad manipulators, at home in the idolatry of chance.

This was the resolution:

"Resolved, That the stockholders hereby approve "of the proposed lease and contract to and with "The Philadelphia & Reading Railroad Company, "and request the directors to execute and carry the "same into effect *immediately* upon the company "acquiring legal power to act in the premises by "the termination of the receivership."

Now read Mr. Richey's motion, which went before and was part of the resolution:

"Mr. A. G. Richey offered the following resolu-

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tion, and asked that a stock vote be taken thereon *at the same time as the vote for directors* is taken."

The Receiver was then thanked; Knox and others were named as inspectors of election, and then, "on motion of Mr. Gowen, a recess was taken until 2 P. M., "in order to enable the inspectors to hold the election of directors and take the vote on the resolution offered by Mr. Richey."

Your Honor sees that both votes were to be taken as one under this second resolution, incorporated in the motion for the recess.

Upon the meeting again coming to order, the chairman declared that Mr. Gowen and the rest were elected. It thus appears that the design was that these two votes should be taken mixed together, so that whoever voted for one must vote for the other. Despite this attempt, 15,382 shares of stock, which voted for the directors, did not vote for the resolutions, and this, though nearly all the stockholders were absent. Suppose the stockholders had been present in person, as Mr. Theodore Little and Mr. Mills happened to be, can we suppose the result would have been as it was? I have a right to say, when we find these two stockholders who were present both protested, and compelled the managers to deduct their shares of stock, that it is safe to presume that had others been present others would have protested also.

I have reminded your Honor that the injunction stood until the 25th of May.

I pause here, and insist that the proceedings of the meeting of the 11th of May were void as to everything save only the election of directors—utterly null and ineffective to sustain the lease, at which the bill is aimed. First, the meeting, as to its real purpose, was procured by concealment, which was a fraud upon the Court and a fraud upon the stockholders. Was not it a fraud upon the Chancellor, to go to him and obtain such a relaxation as I read you, knowing, from his previously written opinion, which I also read, the view and understanding he had of the object of choosing directors? Was it not a fraud to go and obtain that relaxation upon that understanding; secreting from him the purpose for which they came, now revealed not only by proof and argument, but admitted by a

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sworn answer; and then to proceed to effectuate that hidden purpose? Was not it a fraud upon the Chancellor; was it not, first, a fraud in fact, in the vulgar sense of "fraud;" and especially was it not a fraud in that sense expressed in many familiar sections of "Story's Equity Jurisprudence," and elsewhere, which arises from a disregard of fiduciary, official, and delegated trusts and duties? What I may do with impunity in the street or in the market, I may not do in your Honor's Court, because I am one of the officers of your Court; and although I be the humblest of them all, triable by the same standard which applies to the greatest; and an act which nobody could challenge elsewhere, becomes a fraud here—a fraud for which I might be stricken from the rolls. So I might deal at arm's-length with my learned friend Mr. Seward, if I could so far forget thirty years of attachment; I might deal at arm's-length, between man and man, concealing what I knew; in the flash phrase of English horse market, "letting his eye be his chap;" and the law might exonerate me. But the moment I assume the relation of trustee and *cestui que trust*, that moment the law exalts the standard to which I must conform; and that moment the law condemns and vitiates what, but for the relation, might have gone "scot free." I ask your Honor, in that sense was not the concealment and deception practiced upon the Chancellor and perverting his order, knowing that he was ignorant of the purpose, a fraud upon the Court? Was it not a fraud upon the stockholders, when nobody but Mr. Gowen and Mr. Knight and Mr. Little had ever possessed a knowledge of the proposed terms of such a lease, and when they cannot call, have not called, one stockholder who knew anything about it, much less who had ever seen it even on the 6th of July? Was not it a fraud upon the stockholders, to attempt to foreclose or forestall or conclude them by the passage of such a resolution, by such means, and in such circumstances?

You have been reminded that the proxies contain the words "and such other business as may be proper."

May I invite your Honor for a moment back into the field of politics which you and I once trod? May I remind you of the notorious attempts sometimes

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made by ward politicians to procure the election of delagates, under words like these? Has your Honor forgotten that one of the by-gone exposed and disgraced tricks of politics was, to call a primary meeting, to choose delagates to a specified convention, but in the notice put the words "and for such other "business as may come before the meeting;" and then at the meeting, after having elected delegates to the convention specified, to proceed to elect delegates to another and different convention, that convention, in parliamentary phrase, being the judge of the election, qualification and return of its members? Such adventurers have gone with a notice just like this in proxies, "for such other business as "might be proper," and attempted to excuse the trick. There has not been in the State of New York, from Buffalo to Montauk, in years, a political convention, so reckless or degraded, that its members would look each other in the face and say they would sanction an election under such deception and stealth. Yet these defendants come here and ask your Honor to hold that such a trick is disguise enough for decency and for equity!

Again, the published notice was an artifice, and, my duty compels me to add, a fraud. What, may it please your Honor, is the object of a notice? To apprise those concerned of what is to be done, is it not? And yet the governing thing which was to be done, the motive, the aim, the chief point of the whole proceeding, was omitted and suppressed in the notice published in the "New York World"—published to satisfy the statute requiring its publication. The proxies were sought by a suppression of the truth, were they not? Mr. Knox was the defendants' agent, not ours. He was selected by them to come to us, to conceal the fact that anything was brewing about a lease, and, in the language of the Supreme Court, to "lull us into security," which the Court says is fraud in fact, to throw us off our guard by saying, "Why, no; we do not care any-"thing about proxies; we are not asking proxies "from anybody else; we have proxies enough to "control the election of directors." Inasmuch as Mr. Dinsmore was a leading business man, of much repute and influence, they deemed it a graceful courtesy for him to acquiesce in their directors—such was the pretense.

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I ask your Honor, was not the proceeding throughout for securing the proxies, both *suppressio veri* and *suggestio falsi?* Proxies prepared, the sworn answer declares, for the express purpose of carrying through this undivulged resolution about the lease, and bringing in directors pledged to adopt it—proxies silent as to any such thing, and now admitted to be naked of authority for the use made of them, unless a pitiful device, a translucent if not transparent fraud, a disguise not thick enough for decency, will cloak the act of perverting the authority they got from the Chancellor, exceeding the notice published, abusing the power they obtained by false pretenses, and attempting to so use it as to complete an an act of such gravity and solemnity as to require the personal sanction of stockholders, even if a majority could do it; and I add that no majority could do it.

The resolution was unlawful and void, because the injunction then stood, and expressly forbade it. Was it not so? Is it possible that, in the very teeth of Chancery's great prerogative writ, in defiance of an injunction, forbidding and restraining me from doing a specific thing—even if I did commit no other fraud, is it possible that I can lawfully do that thing despite the Court and its mandate?

Again, a proxy in whatever form, was illegal for such a purpose. The charter says so; this very charter under which the Jersey Central lives, says so. Making such a disposition of property, is not a question on which by proxy stockholders can act. Need I go any further? The consolidation act expressly permits the use of proxies for the purpose there named; showing by legislative declaration that without an express enabling statute no such use would be valid. The counsel states that there is no right at common law; he said yesterday—

MR. ROBESON: I beg your pardon; I said nothing of the kind.

MR. CONKLING: Before the counsel interrupts, it might be well to let me conclude the sentence: I shall not forget his illustration of a letter. When he hears what I am in act to say, he will not wish to interrupt. The counsel said that at common law stockholders have no right by proxy to choose officers.

In order to so modify the rules of the common law, the charter nominates the one purpose for

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which proxies may be used, to wit, the election of officers; and, the statute adds, in effect, they shall not be used for any other purpose. Suppose a stockholder had sent a letter; would that do? I return the learned counsel my thanks for the suggestion. Suppose every stockholder had written a letter saying, "I cannot come, but I have heard of this proposition and am for it;" would that ratify a lease? Letters from all of them would not do that. Could votes be cast by dint of such letters?

I submit to your Honor, that this is all that counsel could contend: a stockholder might estop himself by writing a letter. He might do it by going out on the street and saying, "This is a most ex- "cellent lease: I am for it by all means;" he might do this without writing any letter at all; and he might be estopped. Has that anything to do with this case? If he was estopped by what he said or by his letter, why would it be so? Because your Honor would hear the statement or read the letter, showing that he knew exactly what was proposed, and that he knowingly and advisedly expressed his assent. Any such knowledge of the lease, appears only by its absence. The proxy of Mr. Dinsmore was obtained by a man who concealed the fact that it was to be so used; it was a meeting held under a notice silent as to any such thing—a meeting at which lawfully no such thing could be done. Does your Honor see any resemblance between Mr. Dinsmore and a man who might write a letter and state that he was advised and informed of what was proposed, and that he did give consent to it? Here is the very antithesis of such a case. There is neither a proxy, nor a declaration, nor a word of evidence showing that Mr. Dinsmore knew anything of the lease. The reverse is repeatedly proved. Do such facts show acquiescence? On the contrary, they show from beginning to end that he was the victim of duplicity and concealment.

Again: Even if a proxy could be used for such a purpose, the proxy must itself contain specific authority. The use of a proxy must be within the power clearly given by it. It is hardly supposable moreover, that any proxy could authorize a vote which would validate a solemn instrument not produced, or read, or stated, and in fact not yet in being or even outlined.

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The next consideration I present goes radically to vitiate on a distinct ground the whole transaction. Mr. Knight and Mr. Gowen were the active men in conceiving, contriving and effecting this lease, both as to its being made in the name of the Central, and its acceptance by the Reading. The proof is very abundant. Scattered all along these pages are the tracks of these two men; and they are like the tracks that lead to a lion's den—all one way. They conceived it, they framed and collected the proxies. They had the stock bought up. They prepared the lease. They obtained the relaxing order, and they navigated the resolution it through the May meeting. They did it all. Mr. Little was a compliant actor; he was clay in the hands of the potters. The most potent man, except Mr. Gowen, who was both director and president in the Reading, is Mr. Knight, also a director along with Mr. Gowen in the Central, and the man of men, except Mr. Gowen, in that board also. Now these men were proceeding both ways. No matter, as Mr. Franklin Gowen said, because the Reading shares at par are 50, or the Central shares are 100, or for any other reason, matching personal interest against personal interest, no matter whether Mr. Gowen's heaviest pocket be on the side of the Reading or on the side of the Central; no matter either in the case of Mr. Knight; it is not a match of personal interest *pro.* or *con.* that the law takes note of; the law's ground is different. No man shall hold repugnant trusteeships. From the time of the Old Testament until now, the law books have so declared. If I am trustee of an estate, corporate or otherwise, the *cestui que trust* is entitled to my judgment, my espousal, my partisanship, my aid, my protection, be it more or less. If I have skill, if I have experience, if I have discrimination, if I have capacity of any sort, that and the whole of it belongs to my trusteeship. If I accept a trusteeship elsewhere, and these two trusteeships come to be opposites in one transaction, their rights and interest being opposed, and I act for both, that action the law condemns, no matter whether that subtle something called motive be good or bad, no matter whether it be a fraud in fact or not; the law says repugnant trusteeships are forbidden.

Mr. Mills protested at the meeting of May 11th, and Mr. Theodore Little, a trustee, protested.

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MR. JAMES E. GOWEN: Will my friend permit me to interrupt him? The testimony on that point is, "Mr. Mills said," and I read from the testimony on page 105, "I had a long talk with Mr. Little, Mr. "Gowen and others, in regard to the lease, but when "I was asked to vote for leasing the road I said No, I "would vote for no lease or no arrangement of that "kind until I knew what it was, and declined to "vote." The counsel has put it as a public protest.

MR. CONKLING: I stated no more than the fact, it seems to me. I stated it was intended by tying two subjects together in one, at the May meeting, to have the stock voted for directors all counted for the resolution also, and that Mr. Mills, who was there, protested against it. I did not say it was a "public protest." If I utter a protest now, it may be said to be public by reason of the numbers here; but if three or four only were here, and I should object, that might not be very public. There being only half a dozen men, that we can find, there, of course it was not in one sense a public protest.

MR. J. E. GOWEN: I say the votes were not tied together, but they were separate, on separate pieces of paper; and it was explained by the testimony.

MR. CONKLING: But this was in spite of the resolution I have read to your Honor. The learned counsel now says that the vote was on different pieces of paper. That does not appear; but suppose it does, does that refute what I have said? By their resolutions they attempted to tie these two votes together; and there being persons there who did not consent to it, the scheme failed, and the votes were separated, and $15,000 shares did not consent; and thereupon the gentleman denies what I say, and repeats that they were segregated. No doubt of it; but would the notes have been thus separated if Mr. Mills and Mr. Theodore Little had not objected?

Mr. Mills did object or protest, as he says, and soon after received from Mr. Gilchrist, lately Attorney-General of New Jersey, a letter stating that in his opinion as a lawyer, this lease is void, and calling attention to some of the cases which have been cited, one of which was Keen vs. Johnson. Thereupon Mr. Mills went to Mr. Gummere, who had been for years counsel of the Little estate, and consulted him. Mr. Gummere advised him that the lease was void.

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Then he went and consulted Mr. H. C. Pitney, a prominent member of this bar, and Mr. Pitney gave him a separate, independent written opinion that the lease was void, and that it was his duty as executor of a will to set it aside. Thereupon he proceeded, Mr. Gummere and Mr. Pitney being his solicitors, to file a bill; and all this history Mr. Gowen and these gentlemen knew when they filed the answer in the suit. I suppose that when Mr. Mills' case comes on, some counsel may be found to rise and state, as you have heard stated, that Mr. Gummere is "a regular counsel for the Pennsylvania Railroad." It is not true as a fact that Mr. Gummere is regular counsel of the Pennsylvania Railroad. He is not, and never was. Mr. Gummere is a counsellor of this Court, of some eminence. I know that without referring to his reputation, because I heard his argument the other day; and whoever can make such an argument, must have reputation as a lawyer, even in New Jersey. He has, at times, acted as counsel in particular cases for the Pennsylvania Railroad, just as he has for no end of other clients. It was to him that Mr. Mills went, and retained him.

Perhaps I ought, in this connection, to refer, in justice to him, to the statement made yesterday and the day before, that Mr. Sewell declined to answer. There is not one word of testimony in this case that the Pennsylvania Railroad or its officers ever had anything to do with this suit, as in truth they never had. First, Mr. Dinsmore says he never talked to one of them on the subject and they never spoke to him, never communicated with him about it, directly or indirectly. Secondly, every man they called says the same thing. When they called Mr. Cassatt, they talked of his buying stock as an officer of the Pennsylvania Railroad. He was not an officer of the Pennsylvania Railroad any more than your Honor was. Mr. Cassatt heard a rumor a day or two before the bill was filed that a bill was about to be filed to set aside this lease, and thought it might be a good thing to sell Central stock. William L. Scott, not an officer of the Pennsylvania Railroad, a resident of Erie, Pa., thought so too; and Mr. Osborne of New York, who has no more to do with the Pennsylvania Railroad than the man in the moon, thought so too. These three men being to-

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gether at the same hotel, one of them said he had heard there was an intention to file a bill to set aside the lease; they talked it over, and they said it might be a good thing to sell some of the stock; so they sold it, and every one of them lost, and the transaction was closed in about two weeks; they bought in their stock and delivered it over in about two weeks. They lost a little, and that is all there was of it. None of them ever saw or heard from Mr. Dinsmore, or ever had anything to do with him about it. The Pennsylvania Railroad or any of its officers never contributed one farthing of money towards this case, or towards getting these affidavits. I put it as strongly as that, and will state what did occur. Mr. Green was employed by Mr. Seward, who for twenty-five years has been Mr. Dinsmore's counsel; Mr. Seward having been associated with Mr. Gummere in the Goodyear rubber case, and knowing the value of his services, said, "I will employ Mr. Gummere," and knowing Mr. Green as an active, accomplished lawyer, familiar with Chancery practice in New Jersey, and having acquaintance with him, said, "I will retain Mr. Green, also." He consulted with these two gentlemen, and retained them. Mr. Dinsmore had no personal acquaintance with either and did not know except generally about them, but he said, "I authorize you, Mr. Seward, to do what you deem right for me." So far from Green being absorbed in the business of the Pennsylvania Railroad alone, he was a general practicing lawyer, and undertook to get up records and affidavits. I do not know whether it appears in the case, but he went to a gentlemen who was regular counsel for the Pennsylvania Railroad and made a little request of him. He thought he was received rather coolly, and said so. The consequence was this same gentlemen said, "Why, certainly, I will do anything to oblige you." Thereupon Mr. Green asked him as a personal favor to him, as counsel of Mr. Dinsmore, to refer him to some one in Philadelphia, and he did refer him to Mr. Patterson, who had read law with him, or a friend of his, and who he said would be a good man. Mr. Green went over and saw Mr. Patterson, and asked Mr. Sewell to see him, and Mr. Patterson went around and obtained some affidavits, and when he presented his bill against Mr.

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Dinsmore, in the Dinsmore case, he sent it to and through Mr. Sewell, who had spoken with him about rendering the service for Mr. Green, and thereupon Mr. Sewell gave his check for the amount of $60, and Mr. Green repaid him. That is all there is in regard to it. And when Mr. Sewell had told the whole story, after some days of attendance, he was again sent for, and plied with questions about what he said in New York, and what he thought, and he answered that he said and did nothing else about the case, and that his opinions and sayings about other matters were his own, and he meant to keep them so.

Coming back to the chief reasons which I endeavored to assign against the legality of the meeting of May 11, I beg to call your Honor's attention to the law as I find it stated in a case which has been decided while this case has been going on. I will hand the decision to your Honor, the opinion of Prof. Dwight, who holds the Chair of Law in the New York University. He was, as your Honor knows, a member of the highest Court of the State of New York; and I think I speak within bounds when I say he is a learned and accomplished lawyer, a man whose probity and refinement, not only of character, but of intellectual faculties, makes him conspicuous. He had before him, as sole referee, a case of a railroad lease. I wish your Honor could lay the two leases side by side and compare them, so much do they resemble each other. He had such a lease before him, a lease to ratify which proxies were used. A meeting of stockholders was called to provide for the issue of third mortgage bonds, and one question was whether, under the notice, a mortgage could be authorized.

Before reading from this learned opinion I wish to inform your Honor of a fact. A quorum of the Reading Board is four; Mr. Gowen and Knight, in mere numbers and arithmetic, made one half a quorum. The Reading Road never accepted this lease by a vote of its stockholders. It never has done so to this day, and never has accepted it even by a vote of its directors save once, and that was before the 6th of July. Mr. Gowen and Mr. Knight procured and engineered that acceptance, and participated in it, and it was also voted for by Mr.

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Williamson, a director, who had bought Central stock, and by nobody else whom Mr. Williamson could be sure of, unless it was Mr. Lewis, a director, who bought in the name of his son, or whose son had bought Central stock.

I now ask you to hear what Judge Dwight says:

"On the 29th day of that month these persons, in their character of directors of the "Pacific road," directed a lease of that road to be made to the "Atlantic" road, which they accepted in turn as directors of that road for that company.

"I pause here, in the narration of facts, to call attention to the proposition that these men, while holding a trust relation for each company, were assuming at the same moment to act both for the lessee and the lessor. This double action on their part was inconsistent with their legal duty to each company. In plain language, it was a clear breach of trust, and their action was capable of being impeached in a court of equity, on the part of any stockholder who felt himself aggrieved.

"It is unnecessary to charge these persons with an intentional act of wrong. They were, however, bound to know the law, and to recognize the great and salutary rule that no person having a legal duty to perform toward another can voluntarily take a position inconsistent with the performance of that duty. If employed to buy, he cannot sell; if employed to sell, he cannot buy; so he cannot act both for a lessor and a lessee, particularly when discretion or judgment is involved in his action. The peculiarity of the present case was that the directors not only represented themselves and their friends, but the minority of the stockholders, including the plaintiffs, and that not of their own choice, but by force of a positive rule of law, which permits the holders of one more share than half of a railroad corporation to control its action. This rule is founded, no doubt, on wise, but certainly on somewhat unfathomable reasons. Its existence could only be tolerated on the supposition that a majority clothed with this enormous power should not forget their trust obligations, but should act in good faith and on sound principles of equity toward the minority, whom they thus arbitrarily represent.

"I entertain no doubt that this lease was voidable

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at the election of any or all non-assenting stockholders on the day it was made, and during the whole period allowed by the law or statute of limitations.

"The general principle governing the subject is nowhere more satisfactorily stated than in the case of *New York Central Ins Co.* against *The National Protection Ins. Co.* (14 N. Y., 85, A.D. 1856). The Court of Appeals was at that time composed of uncommonly able men, including Judges Denio, Alexander S. Johnson, and Samuel L. Selden among its permanent members, and William B. Wright and Thomas A. Johnson among its temporary members. There has been no better Court in this State since its organization. The opinion of the Court was written by the Chief Judge, Hiram Denio, inferior to none of them. One Stevens, in that case, assumed to act as agent between two corporations as in this case. On the one hand he represented an insurer, and on the other an insured. It was his duty in the one character to get the highest rate of premium and the most favorable terms for the insurer; in the other capacity, he was bound to obtain the insurance at the lowest rate of premium and the most favorable terms for the insured. How could he hold the scales even between the two parties to the contract? The Court said on p. 91: "The parties to the contract in this case are both corporations, and must of course transact their business through the instrumentality of agents, and Mr. Stevens was the agent of both parties. The plaintiffs were entitled to all his skill and ability, and the defendants had the like claim upon him. Neither required the services of an indifferent person whose object might be to secure equal advantages to both the contractors. . . . There was a manifest inconsistency in attempting to negotiate this insurance as the agent for the insurers and the insured." The Court then proceeded to hold the transaction voidable on principles of equity law as applied to trusts, p. 92. An even stronger case might be presented in such an instance as the present than that contained in the above cited insurance case, There the agent acting between the two companies was a mere intermediary, and without any interest in the subject matter of the contract. How much more cogent must such a

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principle be, where a majority of directors of a corporation, being at the same time owners of a majority of the shares of stock, are successful in obtaining a majority of shares in another railroad, and a corresponding control, and thus succeed in obtaining a power to impoverish and in common parlance to "wreck" the latter for the interest of the former! The principle does not require that the power should be exercised corruptly. The power must not be allowed to exist at all. The Court must hold with unflinching steadfastness that the dual directorship shall be *disabled* from representing the two corporations in any transaction requiring skill or judgment to be exercised for each. There is no middle course whereby solvent associations can be saved from the greedy grasp of unprincipled adventurers.

"I must accordingly, on the testimony now before me, hold this lease to be voidable at the election of the plaintiffs, unless I find sufficient evidence of their ratification of it.

"It is to be noticed that the principle, as above stated, does not require that any unfair advantage be taken, or in the present instance that any injury should be worked by the lease to the non-assenting stockholders. They are not obliged to show any reasons for asking to have the contract set aside. They may simply plant themselves on the legal disability of the directors to do the act in question. The case cited shows that actual fraud is not a necessary ingredient in the plaintiff's case, p. 91. Still, I think that there are strong circumstances to show in the present case that the "Atlantic" directors intended to use, and actually used the control acquired over the "Pacific," for the advantage of the former, and with little, if any, reference to the interests of the latter corporation.

"I see no way of making such a lease binding on the non-assenting stockholders, except by ratification by them of the unlawful act. Such a ratification would require a clear understanding of the terms of the lease, and a distinct, unequivocal act on their part. I find in the case no evidence of sufficient knowledge of the facts, nor of the necessary acts of ratification. As to the necessity of such knowledge I refer to *Pacific Rolling Mill Co.* vs. *Dayton* (7 Sawyer, Cir. Ct., 61). There is another element of doubt which ought to be referred to.

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"There is strong reason to believe that a railroad company, even with the full assent of the stockholders, has no power to make a lease, in the absence of an enabling statute. It appears to be clearly held in this State that a railroad corporation has no such power. *Abbott* vs. *Railroad Co.* (80 N. Y., 27), confirmed by a later case (86 N. Y., 107, 117). The opinion of CHURCH, C. J., in the case first cited places the disability on common law grounds, see p. 30. He there says: 'It has been repeatedly held in the English Courts that one road cannot lease itself to another without the consent of Parliament,' citing *Beman* vs. *Rufford*, (1 Simons, N. Y., 550); *Great Western Railway Co.* vs. *Eastern Counties Railway Co.* (9 Hare, 306); *Winch* vs. *Company*, (5 DeG. & S., 562), as well as a number of American cases. The case in 86 N. Y., 107, is one of a direct action between the lessor and lessee companies, and the lease was pronounced invalid, there being no express statutory authority to enter into it. As this is declared to be a general rule of law, it must be assumed that this is the law of Missouri, until there is some proof to the contrary. In any event, there is strong reason growing out of the semi-public character of railroads, why the Courts should watch leases with great care. A lease may involve the shifting of responsibilities, waste of property, and injury to the commercial prosperity of the country traversed by the road. It ought not to be tolerated, unless fair in its terms, nor unless made to a responsible corporation, nor unless the rights of stockholders and bondholders are properly guarded and protected.

* * * * * *

"The third mortgage bonds were *in form* authorized to the amount of $4,000,000 by a stockholder's vote, at a meeting held on July 10, 1875.

"It is, however, claimed by the plaintiffs that there was in point of fact no sufficient authorization.

"At the meeting above referred to, the stockholders were for the most part represented by proxy. The meeting was held in Missouri, at St. Louis, and the directors were still holding office, substantially as already detailed, and acting under the lease of

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1872. The form of the proxy was as follows: 'Know all men by these presents that stockholder of the Pacific Railroad (of Missouri) owner of shares, have made, constituted and appointed lawful agent and attorney for and in name, to appear at a special meeting of stockholders of said Pacific Railroad of Missouri, to be held in the city of St. Louis on the 10th day of July, 1875, for the purpose of voting upon the action of the directors of said Pacific Railroad in authorizing the issue of $4,000,000 of *bonds*, and for the transaction of any other business which may come before said meeting or at any adjournment thereof, and then and there, for me and in my name, to cast the vote to which is entitled as a stockholder, and which might cast if present. Witness, etc.,'

"This proxy was issued to the stockholders for their signatures. Assuming that it was necessary for the stockholders to assent to the issue of third mortgage bonds, there was a most extraordinary omission in failing to mention in the proxy the fact that a *mortgage* was to accompany the *bonds* to be authorized. It must be borne in mind that there were already bonds out in various names, "Income," "Improvement," etc. A stockholder would naturally infer that one more attempt was to be made to find a bond under some still more captivating name, which capitalists would take. I think that there is a total failure in this case to confer upon the person holding the proxy the power to vote for a mortgage. This so-called "proxy" is nothing more than a power of attorney, and must be governed by the rules applicable to that class of instruments. 'It is a well settled rule that all written powers such as letters of attorney, or letters of instructions, receive a strict interpretation, the authority *never being extended beyond that which is given in terms* or is absolutely necessary for carrying the authority so given into effect.' Paley on Agency, by Dunlap, 4th Am. Ed., pp. 192, 193; *North River Bk.* vs. *Aymar*, 3 Hill, 262; *Cobbold* vs. *Chilver*, 4 Mann & Gr., 62. It is the duty of one who acts on the basis of the powers granted in the letter of instructions to inspect it, and if the attorney or proxy goes beyond the written authority, his excess of authority is nugatory, and has no bind-

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ing effect upon the principal. *Same cases.* Applying this rule to the facts of the present case, it would seem clear that the proxy conferred no authority upon the holder of it to vote for third mortgage bonds. As the very great majority of the votes were given upon these proxies, I see no way of upholding the mortgage, providing the assent of the stockholders was necessary."

In the "Albany Law Journal" for November, the last one, your Honor will find a case just decided in New Hampshire, in which the Court not only establish this doctrine, but with much industry of research cite a phalanx of cases which, as the printer would say, "run in solid type," occupy a large part of a page—cases denouncing repugnant trusteeships, and declaring that the same man being trustee for one and trustee for the other, could not do that which has been done in this case.

(A recess was now taken for half an hour.)

MR. CONKLING (resumed): In listening to the extract I read from the opinion of Judge Dwight, your Honor may have observed that the argument founded upon the words of the proxy, "for the transaction of any other business that may come before the meeting," played no part. The words were in the proxy. The Court nowhere takes notice of them, unless to cover them with the mercy of its silence.

Having examined the opinion of Prof. Dwight, and commented upon the meeting of May 11th, I come now to ask your Honor to observe that the meeting of stockholders on the 6th of July is offensive for several of the reasons which condemn the May meeting. The meeting and proceedings were again controlled by the same men. Gowen, Knight and Little were the persons named in the proxies. The great body of the stockholders were absent. The fact of the lease, as far as the proof discloses, had never been brought to their knowledge. I should have said the fact of *a* lease, or *any* lease. *This* lease, monstrous as it is, has never been brought to their knowledge, not even constructively, under the Recording Acts of New Jersey, even to this day; it

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has never been recorded or placed in the public archives anywhere. And if your Honor annuls it, the records of this case alone will perpetuate it. It may then be said, "The question of its death is enrolled in the Capitol."

The same form of proxies was used at the July meeting. There Mr. Dinsmore and others dissented. Who dissented? You have heard much about 500 shares of stock. There were fifty million dollars of assets. Mr. William B. Dinsmore owns one-ninetieth, that is more than half a million dollars; and the Vail estate owns one-eighty-third, nearly six hundred thousand dollars more. It is before you in proof, that those who represent more than a million dollars of these assets, are here, and in a sister Court, protesting, and asking that their rights as *cestui que trust* may stand under the shield which your Honor as Chancellor bears. These, and others such, a large number, positively voted against the lease in July. Mr. Mills did so, and others.

MR. ROBESON (interrupting): Mr. Mlils said he was not there.

MR. CONKLING: You are right; Mr. Mills meant to go. but did not attend. My learned friend, the life-long counsel of Mr. Dinsmore, was there, with an explanatory protest for Mr. Dinsmore not only, but he called attention to other proxies, and required either a protest to be entered in case of each or to enter protest once for all: and a saving stipulation was given by Mr. Franklin B. Gowen, on the spot.

Your Honor may have seen semi-dramatic representations in which one man, by costumes, appears in a variety of characters. At one time he is an Alderman big in girth, at another he is a sailor with a snow storm of collar, under which trickles a rivulet of blue shirt; and so on, each time somebody else, but always the same inner man. He is jack-of-all-trades, and he wears a costume, moment by moment, fitting each. So Mr. Franklin B. Gowen has shown the versatility of his talents by his many characters and parts. He is counsel of the Reading Road; he is president of the Reading Road; he is director of the Reading Road; director in the Central Road; stockholder in the Central Road; lessor, agent and manager for the Central Road; counsel for and against the Central Road; lessee and agent for the

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leasing road; director and charioteer at the meetings of the stockholders of the Central Road on both occasions; presiding officer and presiding genius at the meeting of Directors of the Reading Road, at which the yet unratified lease was accepted in embryo and in advance. And he is the man who, by a dash of the pen, signs a stipulation for a majority of the stock of the Central, represented by paper proxies.

Mr. Seward did not repeat in the case of each individual, but he said of Antello's proxy, they being all alike, that the proxy gave no authority to anybody to vote to ratify or validate the paper which they called a lease or contract. We now repeat this. It thus appears that at the meeting of July 6, in the presence and hearing of these defendants, a protest pointed out the illegality of their proceedings, and the invalidity of these proxies and all of them, for the uses to which they were put.

I am about to say something of vested rights and intervening rights, of which we have heard, and therefore I charge, as the proofs charge, these actors, one and all, with knowledge, with notice, with caution. In not a legal sense alone, but in every sense it must be said when they come into this forum, "you acted at your peril; you proceeded with your eyes wide open, not merely because the law says that no excuse shall be heard for ignorance of the law, not because of presumptive or constructive notice alone, but because of actual notice, actual caution, actual admonition; you have chosen to trample protests under your feet, and you have acted at your peril. He who takes the sword shall perish by the sword."

Before leaving the meeting of July 6, I beg your Honor to bear with me while I say again that the lease, as the proof shows, was at some time during that meeting, first produced, not read aloud, but thrown upon the table. It had never, up to that moment, been visible to mortal eye, except to the eyes of Mr. Franklin B. Gowen, Mr. Little, the Receiver, ex-Chancellor Williamson, as appears in his letter of the 26th of June—so shortly before, who had "cut and slashed at it," and Mr. Mills, who had sturdily gone as trustee and demanded to be informed what it was, and he had been permitted to look at it; that makes four men. And to these four men was confined the knowledge of the contents of

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the instrument. Only contemplate this a moment! The deed or lease conveyed away $50,000,000 of assets forever. An estate of such magnitude, was conveyed away forever, by a paper whch had never been seen or heard by those who owned the estate, or by anybody save only those masquerading as trustees, and really adverse in position and character, and who had secretly contrived the scheme. Barristers come in and talk not only about sustaining such a transaction, on some legal theory, but one, not to be equalled in courage by his associates, boldly marches up and plants himself on the ground that it was done in good faith, and suggests that its integrity and high purpose should shield it from chastisement!

Let me look at this conveyance, thus eulogized—this "lease or contract," which you have been told "rescued the Central from bankruptcy." That is the flourishing phrase of Mr. Franklin B. Gowen. That is the exploit of this lease; it rescued the Central from bankruptcy! A lease dated the 29th of May, and acknowledged on the 1st of June, first ratified on the 6th of July, rescued from insolvency a corporation which they themselves, in a proceeding of their own, had, weeks before, proved triumphantly solvent—able to pay promptly every demand, having not only a surplus, but an abundant earning power growing constantly, more and more!

What is this marvelous, backward-acting instrument? Your Honor has heard from the opposing counsel, for not one of them omitted it, that Mr. Smith said the lease was an injury to the Reading Road Let me tell you what Mr. Smith really did say. Mr. Smith said in his affidavit: I have never seen the lease, I know nothing about its terms. I have seen nothing but a mention of it in the newspapers; I have seen a statement that it guarantees six per cent. I know the Reading Road and its viscera. I have been president of it and I know it is empty and rotten to the core; if it has leased the railroad on a guaranty of six per cent., my judgment is it is an injury of one million dollars, in view of the load it already staggers under.

Your Honor will find, if you look at the testimony of every man or boy—for they called boys—that every man, with perhaps one exception, they have called and asked his opinion about this lease,

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is somebody who never saw the lease, never heard it read and knew nothing about it, except the naked fact—that the Reading guaranteed six per cent. Has your Honor any difficulty in understanding how an ex-president of such a company as the Reading received the impression that such a guaranty, for the mere use of the Central Railroad, would be improvident? The operation of his mind appears to have been that a guaranty of six million dollars absolutly, for nothing except a mere user of the Central, was to put the Reading in the attitude of an insurer; and as the Reading was already extended in obligation, tottering and unable to meet its fixed charges, well might a financier say, this is a dangerous, improvident thing; it may be fatal—it is injurious. So might boys, in whose names, without their knowing it, stock had been bought, say they simply heard that buyers of Central stock might rely upon the Reading Company guarantying six per cent. perpetually. Well might they say, "that enhances the value of the stock." Such hearsay has been presented as the judgment of intelligent men knowing the facts. Not one of them knew or knows the provisions—the one-sided provisions of this lease; not one knew that an estate of great magnitude had been thrown in absolutely as a douceur and bonus to the corporation making the guaranty. The moment you put the terms of the lease into the inquiry, that moment you throw into the scale the controlling element. Not so when you ask as a mere hypothetical question: does a guaranty of six per cent. enhance the value of the stock?

This so-called lease is a deed of sale of everything it conveys. Calling it a "lease or contract"—had they called it only "a lease," proves nothing. If I take a blank lease, labeled a lease, and fill it up with a death warrant, is that a lease in the sense in which your Honor's mind and mine now contemplate the question? If I put a grant in it, is it still a lease? If I grant your Honor, in an instrument labeled a lease, a right of way for a term or in perpetuity across my dooryard, and in the same paper grant the title in fee of two farms, is that paper a lease? Even though the paper were labeled a lease, not "a lease or contract," but labeled merely a lease, and though it contain the word

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demise or demised, and the word lessor, and the word lessee, the part of it which is a lease is *in perpetuity;* and the Courts of New Jersey, as well as of other States, have said in so many words, that a lease for nine hundred and ninety-nine years is a sale absolute. My learned associate cited the case of Black against Delaware, 34 New Jersey, 465, from which I read a few words of the opinion:

"Equity looks at the substance of a thing, and not at mere names. *For all substantial practical purposes a lease for nine hundred and ninety-nine years is a conveyance in fee. It would carry us to a period as distant in the future as the time of Alfred the Great is remote in the past, &c.*"

So that, did these words demise and lease, extend throughout this instrument, it would still be *a deed of sale.*

The learned senior counsel on the other side yesterday told your Honor, with an emphasis born of conviction, that he would not contend that this was a lease; he said that it was a lease of no more than the mere road-bed, and of all else it was *an absolute deed and sale.* Thus, the senior counsel on the other side tells you that this is a deed, and admits that it works a sale; and over against it stands section 10 of the charter of the Central Road, declaring in so many words, that the fee of the estate shall be vested *forever in the corporation.* And now a paper, which is to alieniate absolutely that very fee, finds champions before your Honor, and an attempt is made to rescue it from judicial prostration. The Statute of New Jersey, speaking to your Honor, speaking for us at this moment as a living word, declares that the fee of this very land which ex-Chancellor Williamson admits is in form, and in fact carried away by this deed, shall repose and remain perpetually in the corporation itself. Can such things be in a Court of Equity? In express words the deed alieniates the fee absolutely without remedy and without retrieve. Without remedy and without retrieve, because no default by the lessee, no failure to perform by the lessee, no injury falling upon the lessor, shall call a halt, even for a moment, in the dominion and possession of the Reading, or in its power to deed to anybody else. It has the right at any moment to convey every-

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thing away, save only the road-bed; and of that separately I have something to say.

The road-bed, says the instrument, may itself be sold by the con sent of the Central Railroad Company. I want to call your Honor's attention to that part of the lease, p. 63, ¶ 11:

"That the said party of the second part"—that is the Reading Road—"may, at any time hereafter, with the *consent of the party of the first part, which shall be evidenced by its becoming a party to the conveyance*, sell and convey the whole, or any part of the real estate hereby demised, and not hereinbefore conveyed in fee simple to the party of the second part, which shall, in the opinion of the said party of the second part, be or become unnecessary for the purpose of carrying on the business over the railroad hereby demised."

When the power of a corporation is appealed to, who is to exercise that power depends upon its nature; the law denotes how and by whom different powers shall be exerted. The power here required on the part of the Central is to join in a conveyance. Who does that? The stockholders? No; not if the so-called lease be valid, because that pre-authorizes the act in the named future contingency. Thus, joining in a conveyance, comes to be within the province of the agents of the corporation. The officers of the company, those who "carry the bag," those who have the seal of the corporation, and act for it. Now look at the consequence. The officers of the Central Road, being the mere creatures of the directors, and the directors being the creatures of these collectors of proxies—and already ensconced for a year—the officers of the Central join in a conveyance conditioned that even the road-bed—the last vestige, the last relic of the thing that was as the New Jersey Central Company—shall be forever sold to strangers or insolvents. And they erroneously strive to mask this ugly feature by saying that it must be with the consent of the New Jersey Central stockholders; and at the same time they boast in their answer that they and their "allies" hold a majority of all the stock, at least by proxy. They boast in their answer they have all that their proxies represented when they elected a Board of Directors, to continue a year from the 11th

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of last May—which Board of Directors is theirs absolutely. And thus your Honor sees that for the next year they have the power, and the means afterward of procreating and perpetuating themselves. Holding stock which they do not own, after the expiration of the term of the present directors they can re-choose them, or others who will do their bidding. Thus having absolute power to command the assent of the Central any day, they give in return a guaranty, not worth—unless the Central earns it—the paper on which it is written! Mr. Franklin B. Gowen, by name in the lease, has the right not only to alienate all the other property—real, personal, and mixed—but even to alienate the road-bed itself, and grasp the last remnant of assets, corporeal or incorporeal, which the Central once possessed, and still honestly owns. Is it possible that in the last quarter of the nineteenth century, in a Court of Equity in the State of New Jersey, all this can be, and can stand?

I want your Honor to know something of manipulating stock, because it was the pleasure of Mr. Franklin B. Gowen to say "they sold short and they bought long—I do not know much myself about the meaning of these terms." Now, as a tribute to Mr. Gowen, in response to this modest disclaimer, and to let your Honor see how much he does know of the art of playing with stock, I refer to the testimony of a witness, a most worthy resident of Philadelphia—Mr. Borie. He was called when the counsel on the other side were light-footed after Mr. Dinsmore's 2,000 shares of stock. My learned friend before me (Mr. Robeson) kept up with the procession in the quest for the fact that Mr. Dinsmore had parted with some shares of the stock which, though he had bought and paid for, had never, on the transfer book, stood in his name. That he had parted with it—this was, then, the momentous issue. So Mr. Borie, by a painful process, tracing by numbers the certificates, and by dates of transfers, gave evidence tending to show that there had passed through his hands the number of three hundred shares, three certificates, one hundred each, which had belonged to Mr. Dinsmore. At the end of this great conquest the counsel paused, and then with a curiosity, idle, perhaps, but excusable, we ventured to ask Mr. Borie some other questions, and after a little *finesse*

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and fence, showing his skill as a conversationalist and his composure as a witness, without meaning to be unfair, he was compelled to make this revelation. On the order of Mr. Franklin B. Gowen, personating the Reading Railway, at least masquerading as its President, he, Mr, Borie, for Mr. Gowen or the Reading, had put up the moneys of the Reading for ten per cent., as a margin; that he had gone vicariously, employing different brokers, into the stock market, and acquired in two ways 20,000 shares of the New Jersey Central stock. Seven thousand five hundred, he had acquired by buying them on a margin; and enough more in a roundabout way, to make 20,000 shares. Brokers had bought them and "sent them in" to him, and he took them and paid for them. He then made stock notes, pinned them to the stock, and planted these notes in five different places in Philadelphia and New York, with the money changers, and got them to loan seventy per cent. upon the stock, which money he took, and with it replaced the money with which he had made the original purchase for the Reading Railroad and its "allies." He held 20,000 shares, ten per cent. of which had been paid by Mr. Gowen, or by the treasurer of the Reading, under his direction, of money of the Reading Railroad Company. A company in default, as the evidence shows again and again, on its own obligations, thus puts up ten per cent. in cash, the stock, by "shinning" or hypothecation, is made to borrow seventy per cent., to be used to pay for itself, interest on this seventy per cent. running against the Reading; and all so that the Reading Road and its "allies" could have a sword, the hilt of which should be in the hands of Mr. Gowen, and the blade of which should govern the stockholders.

Mr. Gowen crowded this witness until he said, this venture was part of a scheme by which the Reading was to control and vote 50,000 shares of New Jersey Central stock. This would place in Mr. Gowen's gripe a sceptre which no one could dispute.

I submit to your Honor that something may be pardoned, of warmth and indignation. My friend said yesterday "he was indignant." I would not grow warm over this case. It is my duty to present the facts and the law as coolly and calmly as I can. Yet it is not easy to be indifferent to such questionable resorts—to such a jumble and muddle of stock

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gambling and shifty contrivances, especially when we hear them commended and bepraised in the forum of justice. The doings referred to are examples of the means by which the defendants have seized control of the New Jersey Central, by which they have absorbed its property, and wield its voting power. Such is the sway of those who, having first proved the Jersey Central, solvent and successful, have snatched at, and sought to take forever, all its belongings and estate.

By this instrument the personal property, in case of default of the Reading, never reverts, even in form. If your Honor will look at page 75, you will see I am warranted in this statement.

My associate admonishes me again to remind your Honor that on the 6th of July, in this little huddle of allies, with nobody there of the uninitiated that we have heard of, except Mr. Theodore Little and Mr. Seward, they did not explain *such a* transfer; they did not even read the paper; on the contrary, they spoke only in reference to *a lease*, and to ratifying *a lease*. Nothing was said about a contract or lease, much less about a deed, so monstrous and vicious as this.

Mr. Franklin B. Gowen asserted, in his argument, that the worthlessness of the guaranty, is not a question for the Court. Was it Solomon who said, "There is nothing new under the sun?" I cite Mr. Gowen *contra;* I submit that it is something new under the sun, that in a Court of Chancery the worthlessness of the consideration—the inquiry whether a guarantor is solvent or not—is none of the business of the Chancellor! Never, since the infancy of the Civil Law, from the Tiber to the Delaware—I venture to say, in the whole range of legal literature—does a doctrine so suicidal find a resting place. Here is no value given or consideration, except a guaranty of a shaky corporation, admitted by the answer to have been recently not only in the hands of a receiver, but insolvent; and the proof shows it is now in default. For such a guaranty, and nothing else, a railroad and fifty million dollars of assets have been given away; and you are told that it is none of your business whether the guaranty is good or bad.

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They say the guarantor has been adjudicated to be solvent, because it has been taken out of the hands of the Receiver. Was not the Central Road expressly adjudicated for good reasons to be solvent, and yet have you not heard it asserted again and again that it was not solvent, and that the lease rescued it from insolvency? It demands a hardy inconsistency, at the same time, to insist that the Reading must be deemed solvent because it was extricated from the hands of a receiver, and that the rule shall be reversed as to the Central. The Reading Road is in default now. The bill charges it; the affidavits prove it. Does anybody deny it? Look at the affidavits of Mr. Patterson and of the broker who at the Stock Exchange took impartially a list of current securities to see how they stood; and there you find, time after time, the securities of the Reading Road in default. Does anybody deny it? And yet my learned adversary here told your Honor yesterday that there was not a word to show that the Reading Road was not solvent! The answer does not deny that it was lately in the hands of a receiver. They do not deny that it is now in default, nor can they deny that they undertook to pay the floating debt of the Central in three months, and at the end of six months it is still unpaid.

My learned friend really rose to sublimity when he told your Honor that there is nothing to show that the Reading Road is not now on the crest of the wave.

When you consider this guaranty in the light of the ugly facts, and remember it is the only pretense of consideration; and find from the deed of transfer that in case of default no security, previous or subsequent, is provided, how can you approve or excuse the transaction? The lease or deed makes no pretense of requiring a restitution of a great volume of assets in any event; but it does permit and authorize a dissipation of the property without recourse and without remedy.

I do not fear to leave unargued the question whether the solvency of a guarantor, whose guaranty is the sole consideration for such a transfer, is a question for the Chancellor when the whole subject is brought before him.

I submit to your Honor that the Chancellor of New Jersey would not have tolerated such an instrument.

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Nobody ventured to ask him to do it. Nobody ventured to display it before him. May I not inquire, Would your Honor, as Chancellor, have approved it? Had you been the guardian of orphan children, would you have made such provision for them? Would you have sanctioned such a transfer by a guardian? Now you are asked not only to approve the transaction itself, but to approve the wrongs in law and in fact through which it was achieved. Those wrongs have given your Honor jurisdiction of the whole subject-matter. They have driven us here. The question at large is before you, and you are asked to do not only what they dared not ask New Jersey's Chancellor to do, not only what they hid away from him, but you are asked to do it now, when it appears suffocated with irregularity, artifice and fraud.

Suppose the facts and conditions proved before Mr. Bedle had been presented to you as Chancellor—as defender of the rights of absent third persons—could you have sanctioned a surrender of this vast estate for a guaranty, however trustworthy, of less than the actual and increasing net earnings and income of the estate—especially a guaranty to be gradually diminished and virtually extinguished at last by the earnings themselves? My learned friend, Mr. Gummere, with much clearness, analyzed the complicated sequences and alternatives by which the sum guaranteed is gradually to grow less and less. I will not reiterate his deductions. The proof made before the Master, Mr. Bedle, is before you. Had it all been presented to your Honor, I ask you, as Chancellor, could you have approved such an instrument on the sole consideration of such an illusory and cunningly-contrived guaranty, given by a corporation in default at the time upon its own obligations? This you are asked to do against a stockholder now, when the guarantor has made default in this very matter before you. You are asked to do it after—first, an imposition has been practiced upon the Chancellor; second, a disregard of the injunction; third, a misleading and deceptive notice of the meeting of May 11; fourth, a deceptive proxy; fifth, a deceptive statement to obtain the proxy; sixth, a vote upon that proxy for absent and ignorant stockholders, which vote was unauthorized by the proxy or by law; seventh, the stealthy acquisition beforehand, for a concealed purpose, of a majority of the stock of the

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Central Road; eighth, double and repugnant trusts in those who concocted and set up the lease; ninth, an instrument *ultra vires* and objected to on the threshold of their information by stockholders. The questions I urge upon your Honor are, first, whether as Chancellor, with no stockholders before you, and no irregularity or fraud yet committed, you would have authorized, sanctioned or permitted it; and, second, it having been initiated by hiding it from the Chancellor, imposing upon him, and carried through by such worse than questionable means, can it be sealed with approbation by a Court of Equity?

The solitary attempt at apology for this seizure of the Central Road, is a combined running arrangement. The answer to this apology is, that an arrangement—the same arrangement—could be made as well without such a lease as with it. Trade and commerce, if honest and lasting, move by inexorable laws; they do not, like kissing, go by favor. In this country, peculiarly, geography and distance control the value of property. Nothing is of any value everywhere; everything is of value somewhere. Thus routes, rates, and moving of freights, are commanding subjects. Could your Honor, by magic, move the products of the wheat-fields of the West into the port of New York, the national debt would be paltry from that hour. Transportation and traffic are shrewd and experienced pathfinders; they do not miss their road. Arithmetic and love of gain decide which route shall be chosen, and how business can be attracted and done. Supply and demand, and pecuniary interest, regulate running arrangements unless trickery comes in. If roads compete, public policy forbids their combination. New York and Pennsylvania denounce the union of parallel roads; to my surprise I find that neither the Constitution or Statutes of New Jersey forbid such consolidations. If they did, there might be yet another awkward element in this case. If roads connect, and naturally feed each other, it would be idiocy or fraud for directors to refuse to enter into running arrangements to give and take passengers or freight. It was said long ago, "where a man's treasure is, there is his heart also." Can your Honor for one moment imagine that directors of the Central Road,

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without this lease, would, if honest, be averse to making the most advantageous and profitable alliances and connections possible? Yet the whole argument on the other side assumes that some necromancy, some magic, some legerdemain, makes it impossible for one road, without stealing the other road, to take the passenger or freight cars of another road and let them pass over its track.

Can your Honor imagine that any board of directors of the Central would refuse to accept a wise arrangement? Can your Honor imagine if the present plan of handling and transferring freight be just and profitable to the road, that any board of directors would refuse to continue it? Does not your Honor know that as certain as the love of gain, as certain as the law of gravitation, any board of directors who should refuse to do it, would be turned out? Yet one would suppose it necessary for the Reading Road to absorb the whole estate forever of the Central, in order to subject it to, or assure its consent to, a running arrangement, such as exists in this instance, and usually, in case of continuous or connecting roads. This is one of the fanciful and and audacious pretensions of those who caught with a fraudulent lease, attempt to get away with it under a cloud of fraudulent dust. Will not Mr. Gowen and Mr. Knight, as directors of both these roads, permit and promote a profitable operating connection? If they agree, who is going to object? Must the Reading Road be bribed by fifty millions of property to give and take freight?

Mr. Cassatt was asked if the Central could not refuse facilities to the Reading. He said perhaps so; and Mr. Gowen, furnishing him words, said: Could not they make it hot for you? Yes, he said, he thought so. Suppose they should, what would you do? Mr. Cassatt answered, if they refused to act fairly, I should build a road across to connect with the Morris & Essex. Does not your Honor see how this answer gives a death blow to the whole pretense that you must absorb and own a road in order to connect with it? The Morris & Essex would connect; that Mr. Gowen and Mr. Cassatt both assume. But, according to Mr. Gowen's theory, and the defendants' theory, no such presumption exists. He would, to be consistent, have to say: you cannot rely upon the Morris & Essex making fair arrange-

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ments; you must seize or absorb the Morris & Essex; in that way, and only in that way can you be safe. You must be able to say, "Moab is my wash pot; over Edom will I cast out my shoe," and until you have planted your heel on the neck of another, you cannot rely upon his making an arrangement even for his own profit. They cite with glee what Mr. Cassatt says, not seeing how it upsets their whole theory, as the experience of mankind and the first law of human nature upset it. They already have the Central Board for a year. They say they have a majority of the stock. Can they not then make this arangement? Are they afraid they will lose the stock? Will not Mr. Borie be able to carry it for them? Are they afraid the bottom will fall out? Do they fear rivalry or distrust from stockholders? Are they afraid when more stockholders come to find out what the lease is, they will uplift the banner of revolt, call them to account, and not trust them any more? Are they afraid that their own creatures will refuse to continue this profitable running arrangement? I do not know how your Honor can reconcile these glaring incongruities.

MR. ROBESON: I desire to cite an authority which I omitted yesterday. It is an authority which shows when an act is authorized by the Legislature that the directors may do it, and also that the interest of the directors in one company, provided they are a minority of the board, does not affect the legality of a transaction—the Opinion in the Metropolitan and Manhattan Railroad case, in 20th Blatchford.

MR CONKLING: The learned counsel comes late with the case he cites—yet an undetermined case; not much like the one before us here. While we are arguing, others are trying the case cited in a Court of New York, and your Honor will find it has not much to do with our present inquiry. If Mr. Gowen and Mr. Knight appear in this case nowhere except in the Reading Railroad Board, where they constitute two-sevenths, and if they merely voted in their board for this lease, and their votes were as two to five; or if being members of the other board only—a board of nine, they merely voted, and their vote was as two to seven—then indeed, there is some likeness between the case at bar and the one referred to; but the likeness is wanting.

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MR. ROBESON: That is what I cited it for.

MR. CONKLING: I beg the counsel to notice that Mr. Gowen and Mr. Knight were the originators, conductors and creators of this lease. In the beginning they invented and brought it into being; they bought up stock, they collected proxies with concealed purpose, they put out the notice, they deceived the Chancellor. They carried through the whole thing; first and last and all the time. They were the Alpha and Omega of the transaction, in both companies and in both boards. They went into the Reading Board where four constituted a quorum, and where also they were directors and managers, and before the lease was ratified on the 6th of July, by the lessor company, they put it through the Reading Board, Mr. Gowen being president, counsel, legal adviser, and executive officer. Did such multiplex and tangled personalities appear in 20th of Blatchford? What law makes even an apology for all this? No warrant for it can be found in 20 Blatchford. The two persons whose action was there challenged, were criticised, because being directors in one corporation, they owned stock in the other, and voted on a transaction held to be within the province of the Board of Directors, and in deciding which their two votes did not change or affect the result. The broad distinction between that case and the facts here, needs no further remark.

I come now to speak of a statutory declaration to which reference has been made as if it can be tortured into a license to take away from the New Jersey Central and its stockholders, its road, its franchise, its personal property, and the fee of its lands, and give them all to another and a foreign corporation.

Such confiscation can, we are told, be spelled out of the power reserved to the State "to amend or alter" corporate charters.

Before going into particulars, we broadly dispute the whole contention. We say the power referred to has no application to this case. We say there has been no exertion of the power, in substance or form, applying it, or attempting or meaning to apply it, to the acts and transactions now before you.

We say there could be no exertion of the State's reserved power to alter and amend, which would or

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could warrant or permit the spoilation which has occurred.

Fortified by all the decisions touching to subject, as far as they are known to me, I maintain that the right to alter and amend has no scope or stretch great enough to empower the Legislature, by any act it could adopt, to authorize the destruction of vested rights, and the spoilation of one citizen or corporation for the benefit of another. I go farther, and insist that no statute of New Jersey could authorize taking the already acquired property, tangible and other, of the New Jersey Central, even if the taking, instead of being for the use and benefit of another citizen or corporation, were for the use and benefit of the public or the State itself. To effect even such a taking, the statute must provide just compensation. So the Constitution of New Jersey declares. If it did not so ordain, the Constitution of the United States, and the principles on which American constitutions and institutions stand, would cast down and cast out any legislative act attempting to confiscate private property without paying for it. Hear what the Supreme Court of the United States says, even about the franchise in 13th Wallace, 264–268, the case of Railroad against Reid:

"Nothing is better settled than that the franchise of a private corporation — which, in its application to a railroad, is the privilege of running it and taking fare and freight — is property, and of the most valuable kind, and it cannot be taken for public use even without compensation. It is true it is not the same sort of property as the rolling stock, road-bed and depot grounds; but it is equally with them covered by the general term 'the property of the company,' and, therefore, equally within the protection of the charter."

Your Honor will find in the 43d of Michigan Reports, page 174, an instructive discussion of such pretensions as we have listened to, by COOLEY, J., a publicist who has made this branch of the law a special study. I add this case to the others cited on our briefs. The three cases in 15 Wallace will also well repay perusal.

A definition of the powers of the State to alter or amend a charter—an exact location of the limits of such power—is valuable in this discussion only because it gives us to see the bearings and origin of

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the power, and thus to see that it has no application here, and does not and could not extend to such a seizure of property as is in proof before you.

The power to "alter and amend," has in recent years been reserved in granting charters, and in general laws authorizing the formation of corporations, because of the decision of Judge Story in the Dartmouth College case. The Constitution of the United States ordains that "no State shall pass any law impairing the obligation of contracts." It was decided that the grant of a charter is a "contract," and, therefore, cannot be "impaired."

To avoid this point, it has become a usage to reserve, in the grant, power to alter it; and thus it becomes part of the contract that alterations may be made. This is the whole of it. A moment's reflection points out the domain to which the power is confined. It lies in the domain *of the grant.* It pertains to *the thing granted.* It relates to matters and things existing between the State making the grant and the person or corporation receiving the grant. What the State gives, it can change, or if you please, take away. But the State cannot take away what it did not give. *A fortiori*, it cannot delegate to somebody else a right to take away what the State did not give.

If the State incorporate a hospital, an opera company, or a coal company, and reserves the right to repeal the charter, the State may repeal the charter; but it cannot take away from the owners or stockholders, the hospital, the opera house, the coal fields, which may have been acquired—no matter how acquired, whether by gift, endowment, or profits.

For still more obvious reasons, the State under the power to alter or amend charters, cannot interfere between individuals or citizens, and enact that one shall give up his property to another.

I say, for still more obvious reasons—why more obvious? The answer to this question brings into view a clear and fundamental distinction.

The charter and organization of a business corporation, is a double contract—two contracts. One contract is between the corporation, as a whole, on the one side, and the State on the other. The other contract is between the corporators or stockholders themselves with each other—a contract *inter*

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sese. In the first contract, the State is concerned—the State is a party, and in respect to it, the State can act under its reserved power. In the second contract, the State is not a party, the State is not concerned, and in respect to it, the State cannot act under its reserved power to alter and amend. The power reserved does not relate in any way to the contract and obligation of the stockholders with each other.

This broad distinction, resting in reason, in principle, in the very nature of things, is plainly recognized in various cases and laid down in text books; the rights and obligations of stockholders, among and between themselves, are deemed as sacred as any rights of property.

But one of the counsel ventures to tell us that all this is "fanciful"—he has printed in his brief that it is "fanciful" to suppose that a contract exists between stockholders, as distinguishable from the contract between the State and the corporation as a whole.

Let us explore the "fancy" a moment. Suppose the Legislature should declare, in case of an existing amendable charter, that those who subscribed before a certain date should, for the same amount paid, have more stock than those who subscribed afterward. Would any one pretend that such an act would be valid; and yet your Honor will observe it would be invalid only because of invasion of contract rights *inter se.* If your Honor and I are corporators together, and the learned counsel is a corporator, and he and I subscribed before your Honor did, paying ten per cent., your Honor having come in later and paid ten per cent. also; can the Legislature afterwards say those who subscribed prior to a certain date shall have twice as much stock for the same money as those who subscribed the next day? Iniquitous it would be, but also it would be a burlesque to defend it under the power to alter or amend, because it could make no difference to the State whether you get the shares you have paid for, or whether I get part of them; in other words, the proceeding would not fall within the relation of grantor and grantee, but would lie wholly within the relation of one stockholder toward another. Irrespective of the wrong involved, such an enactment would be void because beyond the

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frontiers and horizon of the power to alter and amend.

But the Legislature has attempted no such thing as I am considering—it has done no such thing as the counsel have imputed to it. No such thing is here for discussion. The charter of the Central Railroad of New Jersey has not been amended, certainly not so amended as to tolerate such a proceeding as this. *First*, the charter was perpetual, and not a revocable license, as in the case of the plank-road charter in Green's Reports. *Second*, the New Jersey Constitution ordains how amendments shall be made, and how they shall not be made. Your Honor knows what confusion has arisen from amendatory acts referring by chapter and title to the act to be amended. It was the boast of a New Jersey lawyer on a conspicuous occasion that the Constitution of his State did not permit any such obscurity of legislation. New Jersey's Constitution ordains that no act or section of an act shall be amended *without reciting it* in the amending act. Here is the Act of 1880—the amending act. Does it not recite what it proposes to amend? Plainly it does. Is there room to doubt what it means to amend? Plainly not. Does it recite the charter of the Central? Certainly not. How, then, can it be contended that it does amend the charter of the Central?

Again, it adds one faculty to the functions of the corporations it relates to; that is all. The act is only permissive. I submit to your Honor that this added faculty must be exercised *sub-modo*, just as like faculties were to be exercised before. Whatever by law in New Jersey was indispensable in the mode of exercising such a power—whatever of consent of stockholders to ratify exertions of similar powers was required by law in New Jersey when the Act of 1880 was enacted, was not changed or dispensed with, but remained and continued the mode of corporate action.

Mr. James Gowen says that whenever power is given to a corporation, it means that it is given to a majority of the stockholders. Where is the law for that? Where is there one case holding such a doctrine? The philosophy of the law cries out against it. Experience shows it to be impossible.

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The law confers powers upon governments, corporations, municipalities. Who shall exercise a given power, depends upon the nature of the power. The nature of the power determines who shall use it, because the law deposits it and reposes it in its appropriate custody.

Look at the Constitution of the United States, where power is given to do various things. One kind is to be exercised by the President, another kind by Congress, another kind by Congress and the President together, another by the Courts. Sometimes we find this expressly stated; sometimes we find it implied by the appropriate distribution of powers. Look at the power given municipal corporations; some powers are suited to the Mayor, some to the Common Council, and some to them jointly. You have only to name them and classify them, in order to refer and ascribe them to the one agency or the other.

Suppose a railroad corporation were authorized or required to stop a train at a particular place, or to take on a sleeping-car or other car at that place. That would not require the action of any of the stockholders, or of the directors or the president of the road, nor of the superintendent perhaps. The train despatcher could do it, or the assistant superintendent could tell the engineer and conductor that they must stop at that place. But when the Legislature says hereafter it shall be lawful for the corporations to which this act applies to enter into certain solemn agreements under seal, does the act mean that such agreements are to be solemnized in a way different from the already existing mode and requirement? How can it be pretended that such an act creates new organs or agencies for the corporation, and authorizes them to bind it? Permission to do an act, speaks to those competent to do it; to those to whom it is referable; and then permits it to be done only subject to the rules of law.

If the Legislature of New Jersey shall to-morrow declare by statute that Mormons or polygamists shall be competent to testify in all cases, what will be the effect of the statute? If by general law a stockholder may not testify where the corporation is a party, would the Mormon or polygamist, though such a stockholder, be entitled to testify be-

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cause the statute says he shall be competent to testify in all cases? A statute of New Jersey may declare to-morrow that thereafter divorces may be obtained by suitors irrespective of their domicile or residence. All persons, although they do not reside in New Jersey, may obtain divorces in the Courts of New Jersey. Must they not still obtain them subject to all the rules and practice applicable to actual residents? And if other statutes of New Jersey have said that every fact essential to a divorce must be established out of the mouths of at least two witnesses, can a non-resident come here under the supposed statute and prove the needed facts by one witness? If a statute of New Jersey has said that no *femme covert* shall ever testify against her husband, and no husband against the wife, can non-residents come and testify against each other?

There is a body, a semi-corporation, a *quasi* corporation the Court calls it, a board of overseers of the poor, and there are three of them. We will suppose that the laws of New Jersey require that all three of them shall be present, in order to make the action of the board effectual. Should a statute add a function or power to such a board, would it be said that therefore action might be taken without the presence of all three?

When a statute of New Jersey says hereafter railroad companies may enter into leases, must not the leases be executed with all the requirements of form and substance which the laws of New Jersey theretofore and at that time provided in such transactions? If the law requires that all stockholders must unite in a given kind of act, does permitting the act to be done dispense with the mode and requirements of doing it? The argument is, not that with the consent of the stockholders the act may be done, but that the statute is mandatory, that a majority may force it upon the minority. It would be hard to argue for such a proposition; it seems idle to argue against it. A man may strain himself when he strikes at nothing, or strikes at the air.

Mr. Franklin B. Gowen said, "the Act of 1880 is not void, it is only voidable." I am glad to say of Mr. Gowen that in that remark, as he seems to have meant it, he showed himself the lawyer; he showed

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discernment and prescience enough to divine a point, and he attempted to avoid it and escape from it by a specious form of statement—"the Act of 1880 is not absolutely void, it is only voidable!" Very well; we have come here on purpose to avoid it, and we have come here, having filed a *caveat* at the start, having giving these defendants notice to beware, in that instant which gave us our first opportunity; and even according to Mr. Gowen's somewhat ambiguous admission, we are rightly and effectually here.

Does your Honor remember that the Act of February 22d 1849, an act which permitted the Elizabethtown & Somerville Railroad to sell to the Central, required in terms, the consent of all the stockholders? I will turn to and read it if there is dispute about it. Your Honor will find it on pages 80 and 81 of the bill. In 1849, speaking to the New Jersey Central, which wanted to acquire another road, a legislative declaration required as a condition precedent, every stockholder of the vendor company to agree to it. And yet these gentlemen, with a courage perhaps the courage of desperation, ask you to hold, in the face of the Act of 1849, that the Act of 1880, speaking again to this very company, as they say, intended to subject every right, however fundamental, to the absolute control of one single share of stock which, between majority and minority, might give the casting vote. There are, for example, a hundred shares of stock in a corporation; forty-nine vote one way and forty-nine vote the other way, and one man holding one share comes in and decides the question. The learned counsel ask you, in the face of the Act of 1849, to hold that the Legislature which thus guarded rights of stockholders, afterwards without saying or implying so, by vague and roving phrase meant to expose all stockholders to the chance of having all their property leased and sold away forever, if a majority of one single share could be secured in a meeting, even by proxy, however obtained.

Again, the Constitution of New Jersey, speaking of all cases of taking property without the owner's consent, ordains that compensation shall first be made. I submit to your Honor that even if the Act of 1880 were inapplicable to such a transaction for

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no other reason, it could not be held that the Legislature meant to declare in the very teeth of the Constitution. I insist, in this view alone, that the Act of 1880 cannot be tortured to mean what the defendants demand of it.

The learned counsel who now sits immediately before me told your Honor that the Constitution of Pennsylvania contains the words, "provided no injustice shall be done." But, said he, New Jersey's Constitution contains no such restraining words; in New Jersey the power is absolute.

It matters not, let me tell the counsel, whether such words are written in a constitution or not. Above constitutions, underneath constitutions, before constitutions, round about constitutions, and ever-living and speaking, are the principles of deathless right and eternal justice; and one of these principles is that no citizen's property shall be taken from him without due process of law or without just compensation. Although such words of supererogation are not written in the constitution of a State, none the less is that State endowed with liberty, and with all that constitutional liberty means. Some truths live without formal repetition; this is one of them. So much for the pretention that if you can find a crime which in so many words is not denounced in New Jersey's Constitution, you may safely commit that crime.

The same learned counsel admitted that by the law of New Jersey no franchise can be *sold* without the unanimous consent of the stockholders. But, says the counsel, it can be *leased!* Very well? My answers are—first, that this is not a lease, it is a contract of sale. The senior counsel told you so yesterday; and so, tried by their own law, they perish. Again, a perpetual lease, in any form of words, is a sale; New Jersey's courts have so decided.

The same counsel says large corporations cannot be tied down by the rules applicable to smaller ones. May I ask your Honor what is the regulation size of offenders amenable to the law? Are there persons in New Jersey, natural or artificial, too great to be restrained by law? I see the learned counsel (Mr. Robeson) nod his head ponderously—"he shakes his ambrosial curls, and gives the nod." I may infer, then, that we have met one of these

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giants; we shall see whether the law has in its sling smooth pebbles enough taken from the current of its authority to slay the giant. Meanwhile, following the suggestion that the law is not large enough to fit great corporations, I venture to inquire is it wholesome that courts should sanction great corporations in setting aside the law by means of manipulations which have already stirred a deep, indignant murmur, well-nigh ready to burst into a storm?

Mr. Little was kind enough to tell us that under this lease, if it can be maintained, the Reading Railroad will possess forty-four per cent. of the whole anthracite area—that area, which the learned counsel in his largeness of statement informed the Court the Almighty had given to Pennsylvania alone—forty-four per cent. of it all has been grasped by one hand, is monopolized by a single corporation. Yet a blanket map is put up here to illustrate arguments against monopoly. In this evidence appears—it is conspicuously omitted on the map—a railroad, built with trust-money to connect with a stranger line running to Lake Erie, which road bears the freight of the Clearfield regions, and takes from the Reading and the Central the normal current of coal traffic. When we come to a final hearing of this case, and to questions which the counsel yesterday seemed prone to anticipate, we may find a set of facts which will present real and awkward questions of monopoly, and which may display motives not yet revealed for the scheme to grasp the New Jersey Central. Now I have a right to say that the combination has seized almost half of the whole anthracite region, with trust funds has built a "cut-off" from one road to another, a cut-off which taps the coal fields and carries off the coal in great tonnage over to another line running in another direction; thus taking traffic and freight away from Philadelphia and from New York, carrying them over no part of this lessor or lessee line, but starving and stripping both the Central and the Reading roads. There is a secret here which may become an open secret before we reach the end.

May it please your Honor, such being in part the predicament, what are the objections to a suit

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brought to assault all this congregated wrong? You have heard them.

Would not money, we are asked, satisfy the demand? We are informed that if money would satisfy it, the suit must fall. Does your Honor know any demand since the morning of time, relating to merchantable property, which money would not satisfy, in the same sense? Is there any demand to be answered in money, which in one sense money will not satisfy? I hever heard of any. Mr. Dinsmore said that, after what had occurred, the Reading Railroad could not buy him. That he said in earnest. That was not one of the jests, one of the by-plays relieving the monotony of pointless and interminable examinations which have been brought in here as serious matters to be argued. With some sturdiness and force he said, "No; my stock is not for "sale at any price. After what has occurred, the "Reading Railroad cannot buy me." Had he not a right to say so? Was not it his duty to say so? Did not his self-respect and manhood require him to say so? But still we are gravely told that the suit is untenable because money could satisfy the demand.

What is the next objection? "The thing is done," and therefore no injunction can go. Then the boldest robber can make the law! The boldest robber is a law unto himself. He need only to be bold enough and quick enough, and that is the end of it. He need only be audacions and expeditious enough to foist through his resolution on the 11th of May, in violation of an injunction, to have a lease prepared, in violation of the injunction, have it dated on tha 29th of May, acknowledged on the 1st of June, accepted by the other company, ratified by proxy, and go on, although in the meantime a bill has been filed and a restraining order or a preliminary injunction served upon——

MR. ROBESON: Do you mean this bill?

MR. CONKLING: My friend seems lost in the rapidity of his client's movements. I was saying it requires only an intrepid knave and an ingenious one to do such things past undoing, to hasten on from step to step, to take a new and needless paper lease of property already by

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the Master's lease transferred bodily as it stood, as effectually transferred as was possible — to make another needless lease with another party, and give six thousand employees the notice "You are now working for the Reading Road." Such antics baffle law it seems. Did the counsel himself ever hear of any thing more ridiculous than the pretense of six thousand men turned out of employment and employed over again all in one breath? But "it is done," and the question is, what are you going to do about it?

Are these coal lands sold? Are the assets gone? Has the road been sold? Are the earnings over six per cent., mortgaged or gone? They have, no doubt, tried to entangle their path, so as sadly to muddle, impede and trip up the law. Perhaps your Honor, when a boy, some time tied together the tops of grass in a path, so that when other boys came along it would trip them up. My friend (Mr. Robeson) shakes his head virtuously. Oh, no; he never did such a naughty thing; he would have gone and untied the grass. With his little hatchet he would have cut down the wicked clover. But he cannot make his sinful clients stop. Spry and energetic they have been—it is possible they have done some more serious acts —such as making away with property or lands. Dare they say they have done so? If they have not done so, ought we not to be permitted to see to it that they do no such thing, until me can ascertain whether we have any rights? I think this a pretty good answer to the taunt that after the horse is stolen, we are trying to lock the door.

The next objection is, that part of Mr. Dinsmore's certificates have been changed. This is so frivolous that I will not advert to it further.

Again, it is said that the suit is a stock-jobbing suit. That your Honor will find positively denied by every witness. Mr. Dinsmore says not one human being ever spoke to him about this suit, or he to any human being save his counsel—Mr. Hoey, his friend, alone excepted—and Mr. Hoey came here day after day, and their attention was called to the fact that he was present. Did not they ask him any question?

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No. They avoided calling the only man Mr. Dinsmore had ever talked to except his counsel; but they proved that he never had any conversation with Mr. Cassatt, Mr. Scott, Mr. Osborne or anybody else at whom the pretense is pointed. Curiously enough, the stock went up from the time this suit began. Your Honor will find they called Mr. Keen as an expert—and he is an expert in the depths and shoals of speculation. He said his judgment was, a suit against a corporation usually had a tendency to depress its stock. When they came to call the men who bought Central stock before the suit was commenced, it appeared the stock was 78; and afterwards it was 83. It was 78 in May, and 82 in August, when Henry Lewis, the son of a Reading director, sold. The "allies" made money by a rise in the stock. I think that disposes of the trumpery of stock-jobbing charges and allegations.

The next insinuation is, that the Pennsylvania Railroad has an interest in the suit. That is utterly false; out of whole cloth. Everybody who has been interrogated about it has denied it. There is not one particle of evidence tending toward it, except that Mr. Green, knowing personally two or three gentlemen who, without being officials of the road, were in some way connected with it, and knowing General Sewell, who is an officer of another road, asked of them the favor of a little personal service to him, such as lawyers and acquaintances constantly exchange. That is all there is of it, and it shows destitution of solid defense that such a thing—a matter of mere courtesy between members of the bar—should be resorted to, as if either side could profit by it.

Still further, as if nothing can be too farfetched, we are told that we have been guilty of laches.

I submit that Mr. Dinsmore was very dilligent. Remembering that he lived eighty miles from New York, remembering that the acknowledgment of the lease was on the first of June, remembering that it had not been ratified by the stockholders when the bill was filed, I submit that, gathering all the facts, all the records, all the affidavits, and preparing the bill and filing it in twenty-eight days, was pretty active practice. I doubt whether your

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Honor could have done it, or ever did anything like it while at the bar in less time.

Yoked with allegation of laches, is the oft-repeated assertion that the perversion of Mr. Dinsmore's proxy on the 11th of May concludes his rights. So unsound is this, that the law would repudiate it, even if the fact were that Mr. Dinsmore himself had known of the resolution passed on the 11th of May, and had favored it. It has been held in a well-reasoned case reported in Bissell, that though in the first instance a stockholder or director makes no objection to a lease and even advocates it, he may nevertheless oppose it afterwards, and maintain a suit to set it aside—he is free to act either way afterwards so long as the question remains open, regardless of the view or position he held in the beginning. In the present case, however, but one position has ever been held by Mr. Dinsmore, and that position finds expression in his bill of complaint.

Of all the protests you have heard against dealing out justice to the defendants, perhaps the most pathetic and touching was that beseeching you not to desecrate the sacred rights of innocent third persons who have "acted under the lease." Who are these innocents groaning to be spared?

First, six thousand employees. One of the counsel, not to be outdone in the anguish of philanthropy, said nine thousand.

These various thousands you are told were in the employ of the Central, they were all discharged. The Reading hired them, and now are you going to turn them all out into the streets? Heart rending as this appeal was, your Honor at least was spared hearing Mr. Stern, the superintendent, testify. Nothing more impressive—certainly nothing more trying to composure, has occurred during this litigation, than the appearance and statement of this witness. He was asked, are you the Superintendent of the Jersey Central? With an emphasis which cast a shaddow over all, he answered, "I am." "Will you state the number of men who were discharged when the lease was made?" With increasing gloom he answered: "Upwards of six thousand were discharged."

This cruel narrative completed his statement. It

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seemed too ruthless, too utterly savage that such a thing could happen among Christian people. In order to get the harrowing details, I asked him, "Were you discharged?" "Well, no"—not exactly. Again I asked, "Did one man or boy lose, or 'knock off' one day, one hour, one minute?" This inquiry seemed to uncouple him, switch him off, and break him up. He finally answered in the negative.

Then he was asked if every one of the "upwards of six thousand" did not keep right on at his work, at the same wages, and on the same terms; the only difference being that it was said the Reading had taken the Central and was going to run it. To this he responded that such was the fact. Your Honor can appreciate our relief at discovering the extent of the actual suffering.

And now, this wretched piece of claptrap is made to do duty again here; and it is gravely said that a preliminary injunction ought not to issue, because it will throw these thousands out of employ. To treat such bombast seriously in temperate words is very hard. A preliminary injunction, such as we ask, will not even nominally or in anywise affect one of the men employed on the Jersey Central. A final decree annulling the lease, will only unannounce the announcement that the Reading runs the Central; and no employee will have a fig's interest in it one way or the other.

The second class of these innocent third persons, whose rights you are implored not to meddle with, is less numerous. It consists of two corporations —the Lehigh and the Wilkesbarre Coal Companies. They were both perpetually leased to the New Jersey Central long ago—and these leases passed by the instrument now in controversy. Some shrewd and apprehensive player in this game of snatch, thought it would be cunning to go through the farce of making a copy of these two leases, and writing in the Reading Company in place of the Central. So, this was done on the very day on which the drag net transfer bears date.

My comment on the proceeding is that beside changing nobody's rights, it was a trick which stamps the whole transaction, and shows that the actors themselves knew and felt that they were engaged in an enterprise needing defenses, barricades,

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and escapes on every side. The injunction now asked will not touch either of these coal companies; and a final injunction will put them back just where they were technically, and just where they now are, in fact.

The next objection is that Mr. Dinsmore did not, before filing his bill, ask the directors, who had done the wrong to undo it. The fact is as stated; he did not so ask them. It is also true that he did not complain to the north wind, and did not whistle jigs to a milestone. But he did just what the rule of the Supreme Court, and the decisions cited on our briefs, say he must do. His complaint informs you why he did not enact the folly of asking Mr. Gowen, Mr. Knight, and the rest to give back what they had just taken.

Passing over some other suggestions which seem too trivial to deserve your attention, these seem to constitute the catalogue of technicalities invoked to stand between the Court and merits of the case. I am willing to leave them with the passing comments I have made.

Before taking my seat, I wish to make clear the object and prayer of this motion.

We ask only to have during the pendency of the suit the rights and property of the New Jersey Central kept where they now are, and as they now are.

We want the *status quo* preserved.

What harm can come of that?

The bill contains a prayer for general relief—the prayer, which an English lawyer said, is, except the Lord's Prayer, the best ever devised. This prayer, gives the Court absolute freedom in its discretion to adapt its order exactly to the justice of the case.

We insist that justice to all rights concerned requires: 1st. That the property of the Central, including its securities, and especially its lands, shall be preserved against alienation or incumbrance. 2d. That its assets, whatever and wherever they may be, shall not be transferred or tampered with. 3d. That the road itself shall neither be conveyed away, or in any way involved. 4th. That no new

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engagements affecting the Central, shall be entered into or set on foot without the knowledge of the Court.

5th. That the accounts of receipts and expenditures of the Central shall not be comingled with other accounts, nor obscured, but shall be kept separate.

These make up our demands at this time.

Your Honor will see how they differ from the purposes imputed to us by our adversaries, and how free they are from consequences and objections which have been depicted.

Of the five particulars I have grouped, not one would seem to me more a matter of course and of common honesty than keeping true separate accounts of and for the Central Railroad.

And yet this mere clerical safeguard encounters vehement opposition.

I confess I had not suspected—it would have seemed an imputation to suspect, that while the whole affair was *sub judice*, these defendants, with or without the knowledge of their counsel, actually designed to so mix together the accounts of the Reading and of the Central Roads that hereafter they could not be unravelled.

The ontcry made on the bearing against an order requiring just and true accounts to be kept, warrants my bringing this point into sharp notice, and asking that it be carefully guarded.

Are we hereafter to have "confusion of goods," as in the ancient case of one who flung his gold into the crucible of another, past the power of testimony or law to separate it?

Are we to have a merger of accounts between contending parties, so as to baffle the law? Is that the meaning of these loud protests against honest bookkeeping?

What, may it please your Honor, in civilized jurisprudence, induces enactments to perpetuate testimony, and to permit conditional examinations in advance of trials? Is it not to prevent the loss of evidence of the truth? Is it not to guard against evidence being eaten away by the tooth of time, hidden away or covered up by interested parties, or lost or forgotten?

Yet you are urged to connive, at least passively,

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at a design of the defendants "to cover up their tracks."

You are asked, by refusing to act, to give opportunity to mix together the moneys earned by these contending corporations, and the entries of these moneys.

Can you entertain such a proposition?

But again, the Reading Railroad Company is a Pennsylvania corporation. Its taxes are due to Pennsylvania. The Jersey Central is a New Jersey corporation. Its taxes are due to New Jersey. The learned senior counsel for the defense has told you how large the Central's taxes are.

Is it to be tolerated that the one corporation, having gained dominion over the other, shall obliterate the line separating the earnings, expenditures, outlays and investments of the one from the other, and obliterate also the distinction in accounts by which alone they can be separately traced?

That such a proposal should be confessed, or even canvassed before your Honor, would be surprising in almost any case.

The temporary injunction we ask, cannot prevent any act in itself right. If such an injunction will prevent any act the defendants meditate, it is some act which ought to be prevented; it is some act which would be wrong and a fraud in law and in fact.

Let the Reading run the Central road until you render final judgment, but enjoin them not to make way with its property or its rights, and to keep honest accounts of their doings.

We ask nothing which will anticipate a final decree. All we ask is that this vast estate, in so far as it has not already been despoiled, shall remain as it is until the decision of the suit.

If you find the lease valid, and beyond assault, there is an end of our motion.

If you find that our rights lie in cloud-land, like the rights of a riparian claimant of tide-washed lands, as in a case cited; if you find that the law has not marked on its chart the principles we invoke, of course we are without remedy.

On the other hand, if settled and familiar principles lie at the base of our complaint, there would

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seem to be but one conclusion in harmony with right.

If an instrument can be made good by defending it, the instrument in controversy ought by this time to be good; and it may be doubted whether since the morning of time any valid instrument ever needed so much of explanation and farfetched apology as has been brought to the aid of this one.

It may be even more safely doubted, whether in any land of law, a transaction such as this, effected by such means, was ever displayed in a court of equity without receiving judicial chastisement.

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Preliminary Plan

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THE PHILADELPHIA & READING R. R. CO.

REPORTS OF FINANCE COMMITTEE AND BONDHOLDERS' COMMITTEE

AND

Plan of Financial Reorganization

JANUARY 26TH, 1885.

PHILADELPHIA:
ALLEN, LANE & SCOTT'S PRINTING HOUSE
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REPORT OF FINANCE COMMITTEE.

TO THE BOARD OF MANAGERS OF THE PHILADELPHIA AND READING RAILROAD COMPANY:—

The undersigned, the Committee of the Board of Managers, to whom was referred the report of the Committee on Reorganization, which was submitted to the annual meeting of the stockholders, held January 12th, 1885,* and was by that meeting referred to the incoming Board, have considered the said report, and have arrived at the following conclusions:—

We agree with the three principles laid down at the beginning of that report, to wit:—

1. That the fixed charges must be brought within the limit of net earnings, and that no higher estimate of those earnings should be made than the earnings of last year.

2. That the existing order of priorities must be maintained.

3. That the floating debt must be funded, and that meantime it must be dealt with in detail at the best discretion of the Receivers.

Proceeding to details, we agree to the full payment of all those obligations which the Committee's plan proposes to pay in full.

Concerning the Divisional Coal Land Mortgages, we agree with the Committee's report, which, being based upon the character and productiveness of the several tracts and

* NOTE.—A copy of which report is hereto appended, marked Appendix A.

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upon the rates of payment (by purchase of coupons) found practicable by the Receivers, may be accepted as safe and reasonable. Excepting for the precedent thus set, we should have thought it necessary to require greater concessions in this class.

The same acquiescence applies generally to the rentals and guarantees specifically named in the report, and we agree to all its suggestions in respect to leases and guarantees.

At this point we encounter a question deserving separate consideration, to wit, the lease of the Central Railroad of New Jersey, as to which we are led to believe that even though no fixed obligations should rest upon our Company beyond the fixed charges and the net earnings of the Central up to six per cent. per annum upon its stock, those net earnings will within a short time, if the union of the two systems continues, amount to such six per cent. We consider it, however, indispensable that the lease be so modified as to make the rental beyond fixed charges equal to the net earnings of the Central up to a maximum of six per cent. per annum for a period not exceeding five years.

GENERAL MORTGAGE.—We are fully aware of the policy, as well as the obligation, of meeting the General Mortgage coupons in full as they mature, and in a normal condition of the coal trade we should recommend that this be done. At present we recommend that the General Mortgage coupon due January 1st, be paid in cash, even at the cost of an unusual effort, and that thereafter the January coupon be paid in full, while for the July coupon for three years there be given scrip secured by the coupon, one series of scrip for each year, redeemable, with interest at six per cent. from maturity of coupon until payment, out of first surplus earnings before any subsequent interest not embraced in the proposed fixed charges be paid; the surplus earnings of any one year to be applied in all cases to the series of a past year if any is left unpaid. Under this plan, if sufficient earnings are made, the scrip given for the July coupons will be paid at the date of the maturity of the coupon. *Provided, however*, that all conditions of the General Mortgage which establish or call for a sinking fund to extinguish the bonds issued under

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it shall be suspended until the Company shall give due notice of its readiness to resume the sinking fund stipulations. Since those stipulations are of no utility to the bondholders and are at present a peril both to the well-meaning creditor and to the Company, by reason of the power they give for serious embarrassment to all interests of the Company and of its creditors, we recommend that no payment of General Mortgage coupons now overdue be made except to such General Mortgage bondholders as consent to have their bonds properly stamped with such suspension of sinking fund.

We recommend further that, if it shall be found practicable and expedient, $1,000,000 of the future collateral trust loan shall be set apart as a specific pledge for the redemption of all unpaid General Mortgage coupons.

INCOME MORTGAGE BONDS, covering as they do considerable property outside of the General Mortgage, have a value independent of the remnant of the proceeds of sale or of income left after satisfaction of the General Mortgage bonds or their coupons, and we should wish to put them upon an equal footing with those, but find it impracticable to do so. We therefore recommend the adoption of the Committee's report concerning Income Mortgage Bonds. It will be understood that the new Income Mortgage Bonds will hold the same independent security upon property not covered by the General Mortgage as do the existing Income Mortgage Bonds.

CONVERTIBLE ADJUSTMENT SCRIP, being overdue as to principal through default in payment of coupons, we recommend shall be converted, together with the coupon of January 1st, 1885, into the new Income Mortgage Bonds, after payment in cash of the overdue scrip coupon of July 1st, 1884.

FIRST SERIES 5 PER CENT. CONSOLIDATED MORTGAGE BONDS.—The great mass of these bonds now held in reserve to be issued when an advantageous sale can be made, should not be changed in form, neither must the comparatively small number already issued be allowed to cause confusion by standing upon a different footing from the others. We therefore recommend that the overdue coupon of November 1st, 1884, and the coupon due May 1st, 1885, of

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those outstanding, be converted at par into First Series 5 per cent. Consols (ex. May, 1885, coupon) and that upon the release of a sufficient number of the Income Mortgage Bonds now pledged for the floating debt, the entire issue of the First Series 5 per cent. Consols then outstanding be retired, the holders thereof to receive in exchange at par the New 6 per cent. Income Mortgage Bonds bearing interest from June 1st, 1885.

SECOND SERIES 5 PER CENT. CONSOLIDATED MORTGAGE BONDS.—As to these we accept the views of the Committee's report, that they shall be converted into 5 per cent. Income Bonds, as there stated.

CONVERTIBLE 7 PER CENT. BONDS.—We think these bonds entitled to advantage over the Debenture Bonds of the Railroad Company, bearing one per cent. lower interest. We see no way, however, to give them preference to any greater extent than by capitalizing into the New 5 per cent. Income Bonds the difference in interest between seven per cent. and six per cent. during the life of the Convertible Bonds, with fair allowance for discount until maturity of coupons. While the new 5 per cent. bonds issued in exchange for principal and for interest coupons to February 1st, 1885, inclusive, will be so marked as to carry the right of conversion into stock at par, those issued in capitalization of interest difference will have no such right of conversion. With this modification we recommend the adoption of the Committee's report concerning the Convertible Bonds.

DEBENTURE BONDS, GUARANTEE SCRIP, AND SUSQUEHANNA CANAL OBLIGATIONS.—As to these we agree with the Committee's report with capitalization of difference between seven and six per cent. interest in favor of the Coal and Iron Debenture Bonds now bearing seven per cent.

PREFERRED STOCK OF PHILADELPHIA AND READING RAILROAD COMPANY we recommend shall be treated according to the Committee's report, viz., for all valid claims for dividends out of past earnings give common stock, and change form of certificate so as to provide that hereafter the seven per cent. dividend shall not be cumulative.

THE FLOATING DEBT.—This we agree should be treated substantially as proposed in the report, yet though no defi-

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nite arrangement for funding that debt can be made while the question of foreclosure remains as a present menace, we recommend that in view of the hope that foreclosure may be prevented by amicable arrangement, detailed plans for such funding should be studied and prepared for putting into operation so soon as practicable.

The volume of securities, other than its own obligations, which are owned by The Philadelphia and Reading Railroad Company is so large, and their independent earning power so great, as probably to justify a sound collateral trust loan of amount approximating that of the floating debt. We do not, however, feel called upon at the present time to append a statement or valuation of those securities, or to indicate, even in general terms, a plan for making them available.

The Committee's report is obviously right in pointing out that the duty of providing the funds for retiring the floating debt and other liabilities, including several millions of Receivers' obligations and overdue coupons, must largely devolve upon the junior security holders, the floating debt holders, the stockholders, and the Deferred Income bondholders, all of whose interests are necessarily in jeopardy so long as the floating debt remains unpaid.

In order to provide for the contingency that so many junior security holders may refuse or neglect to accept within the stipulated time the modifications proposed for their several classes as to defeat the carrying out of an amicable arrangement, thus rendering foreclosure inevitable, we recommend a prompt and careful study of the best method of reorganization under foreclosure, with due protection of the interests of those junior creditors who shall within that time have assented to the terms proposed.

We recommend that the written assent of all parties interested be asked, upon the condition that the assent so given shall become binding only when, in the judgment of the Board of Managers, a sufficient proportion shall have given such assent.

We recommend that the time for giving assent to the settlement proposed be fixed to end on March 31st, 1885.

We recommend that this report, with an elaborated plan

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of reorganization embracing such details as will make its provisions clear to all concerned, be promptly made public.*

We suggest, also, that since a careful husbanding of resources is well understood by the public to be a necessary condition for the successful carrying out of any plan of financial reorganization, attention might properly be called to the fact that a resolution adopted by the Board of Managers at their meeting on January 14th directs that no new work shall be undertaken or contract made involving the credit or policy of the Company, unless first submitted to and approved by an appropriate committee.

It is understood that no money arising from income shall be diverted to any capital account, or used for any other purpose than the payment of working expenses, renewals (including betterments necessary for economical working), fixed charges, or income obligations, so long as any of the income charges established in this plan remain unpaid or unprovided for.

It is further understood that neither the 5 per cent. Consols, herein provided to be temporarily retired, nor any other unissued bonds of the Company, shall hereafter be used as collateral security for any indebtedness to be created by the Company, unless ordered by the Board of Managers.

To conclude, we are satisfied that the large economies already in operation, with those which are still being introduced, should be regarded as a margin to meet adverse contingencies. We call attention to these points:—

First.—That foreclosure is inevitable and probably near, unless prevented by such amicable reorganization as is proposed.

Second.—That the revenue we reckon on, though reasonably certain under such reorganization, will surely not be realized in case the property should be torn asunder by foreclosure sales.

Third.—That under this plan each class of creditors gets

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* NOTE.—See Appendix B.

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at once, without dispute, delay, or cost, all that it could hope to get after suffering the vexations of even a perfectly successful litigation. Each creditor, according to his present relative priority, is to receive everything that the property can under the best circumstances be made to earn for him.

Fourth.—Supposing the plan to fail through refusal or neglect of junior creditors to accept it, they then lose by foreclosure all their rights, unless they can combine to supply from their own pockets an amount of money greatly in excess of that which under this plan can, it is believed, be obtained upon the credit of the Company and pledge of its own securities.

Even the General Mortgage bondholders, in case they should after the inevitable delay and cost succeed in forming a solid combination and in acquiring by foreclosure the property covered by their mortgage, would be far from possessing the magnificent estate and enormous earning power of the great property now held together by The Philadelphia and Reading Railroad Company. Foreclosure would doubtless sacrifice the extremely valuable franchises of the Company and also various leases and tributary connections to an extent impossible to foresee.

A very large sum of money, estimated at $5,000,000 to $10,000,000, would have to be raised to discharge Receivers' debts and other obligations, besides great sums for working capital, &c., to enable the curtailed new organization to carry on business.

JOSEPH WHARTON,
J. B. LIPPINCOTT,
I. V. WILLIAMSON.

PHILADELPHIA, January 26th, 1885.

GENERAL OFFICE OF PHILADELPHIA AND READING RAILROAD COMPANY,
No. 227 SOUTH FOURTH STREET, PHILADELPHIA.

The above report was this day adopted by the Board of Managers, and ordered to be published.

GEO. DEB. KEIM,
President.

PHILADELPHIA, January 26th, 1885.

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We approve of the foregoing report, and recommend its acceptance by the creditors and stockholders of the Company.

GEO. DEB. KEIM,
STEPHEN A. CALDWELL,
Receivers Philadelphia and Reading Railroad Company.

PHILADELPHIA, January 26th, 1885.

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APPENDIX A.

REPORT OF BONDHOLDERS' COMMITTEE.

PHILADELPHIA, January 10th, 1885.

TO THE BONDHOLDERS AND STOCKHOLDERS OF THE PHILADELPHIA AND READING RAILROAD COMPANY,

The Committee has found it impossible, within the short time that has elapsed since its formation, to prepare in proper detail a final plan for the financial reorganization of the Company. Such a plan necessarily must deal with the exact figures of the present and proposed fixed charges. The fact that the books of the Company for the fiscal year ending November 30th, 1884, have only been closed within the last three days, has alone made it impossible to obtain correct figures and data from which to present the results of any plan of reorganization. The Committee, therefore, in order to have its report ready in time for the annual meeting of the Company, has determined simply to report in general terms a recommendation with reference to dealing with each class of the securities of the two Companies and the leased lines, leaving to the incoming Board of Managers the duty of digesting these recommendations and of preparing for the information of the stockholders and creditors, in proper tabulated form, a report showing what would be the result of the acceptance of the recommendations of the Committee, and also of providing the necessary machinery for carrying those recommendations into practical effect.

The present net fixed charges of the Company are, in round numbers, $16,650,000, while the earnings of the past fiscal year (after deducting revenues from securities of the Company and its leased lines, the interest or dividends on which are deducted from the above net fixed charges) are, in round numbers, $12,900,000.

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The objects sought to be accomplished by the Committee are :—

1. To reduce fixed charges to the limits of last year's earnings.

2. To preserve the proper order of priorities of each class of security which are converted into income obligations, so that no income applicable to any senior security that remains unpaid can by any possibility be diverted to pay the interest on a junior security.

3. To provide a method of paying the floating debt.

The Committee recommends the payment in cash of the following interest, rentals, and guarantees as named, the aggregate of which will constitute the fixed charges of the Company, viz :—

On mortgage loans prior to Consolidated Mortgage, in full.
" Consolidated Mortgage, in full, all sinking funds suspended.
" Improvement " " " " " "
" Real Estate obligations "
" Car Trusts "
" General Mortgage Scrip and Perkiomen Scrip, in full.
For half coupon of General Mortgage for three years.

Pay on following Divisional Coal Land Mortgages as follows :—

Wm. Bowers,	in full.
B. W. Cumming,	" "
Munson & Williams,	" "
Shamokin & Bear Valley,	" "
Wetherill and others,	" "
Isaac May,	" "
Big Mt. Improvement Co.,	" "
William Riehle,	" "
Little Schuylkill Co.,	" "
John Merino,	" "
Phila. & Mahanoy Coal Co.,	" "
Brady Coal Co.,	reduced to 6 per cent.
Charles Baber,	" " 6 " "
E. M. Beatty,	" " 6 " "
Forbes & Delano,	" " 6 " "

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John R. Lessig,	reduced to 6 per cent.
Levi Mattson,	" " 6 " "
Mt. Carmel Locust Mt. Coal Co.,	" " 6 " "
Thomas H. Walker,	" " 6 " "
Swatara Company,	" " 6 " "
Carey Hart and others,	" " 5 " "
Glentworth Tract,	" " 5 " "
Isaac W. Hughes,	" " 5 " "
Locust Mt. Summit Imp. Co.,	" " 5 " "
Richardson's Executors,	" " 5 " "
J. Van Reed,	" " 5 " "
Samuel Huston,	" " 5 " "
C. Tower,	" " 5 " "
Hammett Executors,	" " 5 " "
Sam. R. Jackson,	" " 5 " "
Tamaqua Tract,	" " 4 " "
Richard Wood's Executors,	" " 4 " "
Joseph Jeanes,	" " 4 " "
Richard C. Dale,	" " 4 " "
Peter A. Ahl,	" " 4 " "
Helfenstein Tract,	" " 4 " "
Hart Lea and others,	" " 4 " "
Chandler Tract,	" " 4 " "
Valley Furnace Lands,	" " 4 " "
West Point Co.,	" " 4 " "
Kemble Tract,	" " 4 " "
Guy E. Farquhar,	" " 4 " "
John H. Krause,	" " 4 " "

For one-half of aggregate interest surrendered by above mortgages, discounted at six per cent. per annum, give Reading Railroad stock at par.

Real Estate Liens, Coal & Iron Co.,	in full.
Bechtelsville Iron Co. Bonds,	" "
Ringgold Iron Co. "	" "
Havre Iron Co. Bonds,	" "
Preston Coal & Imp. Co. "	" "
Tremont Coal Co. "	" "
Mammoth Vein Coal & Iron Co. Bonds,	" "

Rentals.

Pay in cash, as follows:—

Mt. Carbon and Port Carbon R. R. Co.	in full.
Mill Creek and Mine Hill Navigation and R. R. Co.,	" "
Schuylkill Valley Navigation and R. R. Co.,	" "
Mine Hill and Schuylkill Haven R. R. Co.,	" "
Little Schuylkill Navigation R. R. and Coal Co.,	" "

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East Mahanoy R. R. Co., ... in full.
East Penna. R. R. Co., ... " "
Phila., Germantown and Norristown R. R. Co., ... " "
Chestnut Hill R. R. Co., ... " "
Catawissa R. R. Co., ... " "
Allentown R. R. Co., ... " "
Chester Valley R. R. Co., ... " "
North Pennsylvania R. R. Co., ... " "
Delaware and Bound Brook R. R. Co., ... " "
Shamokin, Sunbury and Lewisburg R. R. Co., ... " "
Schuylkill and Lehigh R. R. Co., ... " "
Swedes Ford Bridge Co., ... " "
Colebrookdale R. R. Co., Guaranteed Bonds, . . . reduce to 4 per cent.
Pickering Valley R. R. Co., " " . . . " " " "
Schuylkill Navigation Co. Pay interest in full, extend overdue bonds at full rate of interest, and pay ½ of present dividends in cash, balance ½ to be capitalized in Philadelphia and Reading Railroad Company common stock.
Susquehanna Canal Co. Pay interest on mortgage loans of 1894 in full. On State of Maryland loan, reduce to four per cent. All subsequent loans and interest and stock and accrued dividends to be converted into New Second Series 5 per cent. Income bonds at par.

Guarantees.

Philadelphia, Newtown and New York Railroad Company Bonds reduce to four per cent. The bonds held by The Philadelphia and Reading Railroad Company to be stamped as a subsequent lien to those held by the public.
Norristown Junction R. R. Co. Bonds, ... in full.
Stony Creek R. R. Co. " . . . . . " "
North East Penna. R. R. Co., " . . . . . " "
Hamburg Iron Co. " . . . . . " "

The fixed charges must also include interest on floating debt, or any loan created to extinguish it.

The following changes are proposed in the various securities of the Company for which full payment is not provided in the above list of fixed charges.

General Mortgage.

Defer half the interest for three years, for the unpaid half coupons, beginning January 1st, 1885, give scrip in Series A, B, and C, respectively, one series for each year,

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not bearing interest, but redeemable (with interest at six per cent. from average date of maturity of coupons until payment) out of first surplus earnings, before any subsequent interest not embraced in above fixed charges is paid. The surplus earnings of any one year not to be used for payments of a series of a following year, but in all cases to be applied to the series of a past year, if any is left unpaid. The General Mortgage Bonds to be stamped with release of sinking funds. Upon delivery of the scrip the six coupons affected to be stamped "half paid," and as the coupons are received upon payment of the cash portion, they are to be retained uncanceled by the trustees as security for the payment of the scrip.

Income Mortgage.

These bonds to be converted into an absolute Income Bond, with interest reduced to six per cent. per annum, payable only out of earnings after providing for all arrears of General Mortgage interest, but cumulative, so that all arrears of Income Mortgage interest shall be a charge upon income next succeeding that of the General Mortgage. Bonds to be stamped, releasing sinking fund and surrender of rights of payment of principal before maturity, and of right to prevent dividends on stock. Overdue coupons to December 1st, 1884, to be converted into similar bonds.

Convertible Adjustment Scrip.

This scrip and all coupons, including 1st January, 1885, to be converted into the above modified 6 per cent. Income Mortgage Bonds.

First Series 5 per cent. Consolidated Mortgage Bonds.

Stamp these with agreement that interest shall only be paid out of earnings, and after all arrears of the 6 per cent. Income Mortgage Bonds are paid. Coupons to 1st May, 1885, inclusive, to be converted into similar stamped bonds.

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SECOND SERIES 5 PER CENT. CONSOLIDATED MORTGAGE BONDS.

Reissue these under the same mortgage, and for the other obligations hereafter mentioned as Second Series 5 per cent. Consolidated Mortgage Income Bonds, having fifty years to run, from February 1st, next, and entitled to interest up to five per cent. out of earnings only, after five per cent. for the year shall have been paid to the First Series Bonds. Coupons to 1st February, next, to be converted into similar bonds.

CONVERTIBLE BONDS.

Convert these with arrears of interest to February 1st, 1885, into the New Second Series 5 per cent. Consolidated Mortgage Income Bonds, with right of conversion into common stock as now exists.

DEBENTURE BONDS OF THE PHILADELPHIA AND READING RAILROAD COMPANY.

DEBENTURE AND GUARANTEE SCRIP.

DEBENTURE BONDS OF COAL AND IRON COMPANY.

Convert with interest to February 1st, 1885, into the New Second Series 5 per cent. Consolidated Mortgage Income Bonds.

CENTRAL RAILROAD COMPANY OF NEW JERSEY.

With reference to the lease the Committee recommend the incoming Board of Managers to secure such modifications of the lease as will obviate the necessity of paying dividends beyond what are earned upon the line after including in the earnings a proper allowance of terminals and car service, and for deflection of traffic at Bound Brook.

PREFERRED STOCK OF THE PHILADELPHIA AND READING RAILROAD COMPANY.

For all valid claims for dividends out of past earnings give common stock, and change form of certificate so as to

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provide that hereafter the seven per cent. dividend shall not be cumulative.

With reference to the floating debt and to the method of paying it, the Committee has examined, as fully as was possible within the limited time it had to devote to the subject, a list of the securities and assets of the Company available for the purpose of raising money, and has received and considered several plans for accomplishing this object; but, in view of the fact that the obligations of the Company cannot command a proper price so long as the fixed charges are in excess of its earning power, the Committee is of opinion that any effort to raise money for the extinction of the floating debt should be postponed until it is ascertained whether the creditors of the Company will, by accepting the recommendations of the Committee with reference to their several securities, agree to aid in restoring the Company to credit. If, then, it should be found that with the securities and assets at its command the Company cannot obtain the money for the purpose of retiring the floating debt, it must be evident that the duty of providing the funds must devolve upon the junior security holders, the floating debt holders, the stockholders, and the Deferred Income bondholders, all of whose securities are necessarily in jeopardy so long as the floating debt remains unpaid.

In conclusion, the Committee recommends that there shall be an absolute separation of the moneys applicable to capital and income respectively, and that no money arising from income shall be diverted to any capital account or used for any other purpose than the payment of working expenses, renewals, fixed charges, or income obligations, so long as there are any yearly income charges unpaid or unprovided for.

EDWARD S. WHELEN,
Chairman.

WHARTON BARKER,
Secretary.

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APPENDIX B.

PLAN OF REORGANIZATION.

In pursuance of the report of the Finance Committee, the Board of Managers of the Philadelphia and Reading Railroad Company present the following detailed plan for the financial reorganization of the Company.

The present annual fixed charges are as follows :—

Debt of Railroad Company.

Note.—The actual amounts outstanding are given, no account being taken in this table of amounts held by the Company or pledged as collateral for floating debt.

	Amount.	Annual Interest.
Mortgages prior to Consolidated Mortgage,	$5,246,700	$341,802
Consolidated Mortgage,	18,811,000	1,235,150
Improvement Mortgage,	9,364,000	561,840
Liens on Real Estate,	2,645,483	152,595
Car Trusts,	2,910,000	174,600
General Mortgage Scrip and Perkiomen Scrip,	919,980	55,199
General Mortgage,	24,681,000	1,530,860
Income Mortgage,	2,154,000	150,780
Convertible Adjustment Scrip,	2,264,610	135,876
First Series 5 per cent. Consolidated Mortgage,	3,194,328	159,716
Second Series 5 per cent. Consolidated Mortgage,	1,732,052	86,602
Convertible Bonds,	10,406,900	728,483
Debenture Bonds,	662,300	39,738
Debenture and Guarantee Scrip,	493,240	29,594
Totals Railroad Company,	$85,485,593	$5,382,835

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Debt of Coal and Iron Company.

	Amount.	Interest.		
	Brought over, . . .		$85,485,593	$5,382,835
Divisional Coal Land Mortgages,	$12,403,000	$851,100		
Liens on Real Estate, ...	557,988	29,554		
Bechtelsville Iron Co. Bonds,	58,000	3,480		
Ringgold Iron Co., . . "	22,000	1,540		
Havre Iron Co., ... "	30,000	1,800		
Preston Coal & Imp. Co. Bonds,	10,000	700		
Tremont Coal Co.'s Bonds, . .	300,000	21,000		
Mammoth Vein Coal & Iron Co. Bonds, ...	77,000	6,160		
Debenture Bonds, ...	1,114,000	77,980		
Totals Coal and Iron Co., . .			14,571,988	993,314
Total funded debt both companies, ...			$100,057,581	$6,376,149

Rentals of Railroad Company.

Note.—From the rentals of each line are deducted the revenues upon such of the capital or debt of lessor companies as is owned by The Philadelphia and Reading Railroad Company.

Mt. Carbon and Port Carbon R. R. Co., ...	$31,594
Mill Creek and Mine Hill Nav. and R. R. Co., . .	29,799
Schuylkill Valley Nav. and R. R. Co., ...	27,775
Mine Hill and Schuylkill Haven R. R. Co., . . .	297,149
Little Schuylkill Nav. R. R. and Coal Co., . . .	185,227
East Mahanoy R. R. Co., ...	10,613
East Penna. R. R. Co., ...	75,657
Colebrookdale R. R. Co. (including guarantee), .	29,232
Philada., Germantown & Norristown R. R. Co., .	291,104
Chestnut Hill R. R. Co., ...	17,201
Pickering Valley R. R. Co. (including guarantee),	21,742
Catawissa R. R. Co., ...	357,390
Allentown R. R. Co., ...	3,635
Chester Valley R. R. Co., ...	11,210
North Penn. R. R. Co., ...	861,751
Delaware and Bound Brook R. R. Co., ...	270,425
Schuylkill Navigation Co., ...	610,962
Susquehanna Canal Co., ...	188,778
Shamokin, Sunbury and Lewisburg R. R. Co., .	40,700
Schuylkill and Lehigh R. R. Co., ...	27,015
Swedes Ford Bridge Co., ...	1,870
Central R. R. Co. of New Jersey, ...	5,877,172
Total Rentals, ...	$9,268,001

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Guarantees not included in above Rentals.

Note.—No account is taken of guarantees of obligations, the interest on which is paid by the principal debtor.

Phila., Newtown and New York R. R. Co. Bonds,	$28,800	
Norristown Junction R. R. Co. Bonds,	2,800	
Stony Creek R. R. Co. Bonds,	24,500	
North East Penn. R. R. Co. Bonds,	11,200	
Hamburg Iron Co. Bonds,	1,715	
		69,015

Interest on Floating Debt.

Interest on Floating Debt and Receivers' Certificates, estimated,	940,000
Total net Fixed Charges,	$16,653,165

The Floating Debt of both Companies for which Cash Should be Provided, is as Follows:—

Notes and obligations of both companies, for borrowed money,		$10,301,907
Notes and obligations of both companies, for materials and land purchases,		383,559
Receivers' Certificates, at 6 per cent. interest,	$1,995,000	
Receivers' Certificates, at 4 per cent. interest,	1,000,817	
		2,995,817
Receivers' obligations and acceptances current business,		641,500
State and other taxes,		602,114
Balance General Mortgage Coupons, July, 1884,		125,000
Consolidated Mortgage Coupons, December, 1884,		617,575
Sundry back interest and dividends on leased line securities,		550,000
Total,		$16,217,472
Add to the above:—		
Receivers' Certificates and floating debt of Central Railroad Company of New Jersey,		1,665,100
Outstanding General Mortgage and Perkiomen Scrip, due July, 1885,		919,980
Total,		$18,802,552

In addition to the above there is outstanding indebtedness, as follows, proposed in this plan to be funded into the same securities as given for the principal debt.

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Coupons Income Mortgage Loan, including Coupon December 1st, 1884,	$156,820
Coupons Convertible Adj. Scrip, due January 1st, 1885,	67,938
Coupons First Series 5 per cent. Consolidated Mortgage, including Coupon May 1st, 1885,	161,150
Coupons Second Series 5 per cent. Consolidated Mortgage, including Coupon February 1st, 1885,	86,737
Coupons Convertible Bonds, including Coupon January 1st, 1885,	311,142
Coupons Debenture Loan, including Coupon January 1st, 1885,	63,724
Coupons Debenture Loan, including Coupon May 1st, 1885,	3,188
Coupons Debenture and Guarantee Scrip, including Coupon January 1st, 1885,	63,245
Coupons Debenture Bonds Coal and Iron Co., including Coupon March 1st, 1885,	92,820
	$1,006,764

The current month's obligations for wages, supplies, &c., being more than overbalanced by the quick assets applicable to their payment, are not taken into account.

The earnings of the two Companies, including those of the Central Railroad of New Jersey, for the fiscal year ending November 30, 1884, are,	$13,396,534
In order to make a proper comparison between these earnings and the present fixed charges, there must be deducted from the former the revenue derived from such of its funded debt and leased line securities as are owned by The Philadelphia and Reading Railroad Company, the interest of which is deducted from the fixed charges above given, say	500,000
Leaving net revenue for 1884,	$12,896,534
As against present net fixed charges of	16,653,165*
Showing a deficiency of	$3,756,631

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* The difference between this amount and that representing the fixed charges in the annual report just published is caused by the facts that the latter includes interest and rentals on obligations owned by the Company, and does not include as much interest on floating debt as is estimated hereinabove.

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It is Proposed to Pay the Following Interest in Cash as it Matures.

Of the Railroad Company.

	Annual amount payable in cash.
On Mortgage Loans prior to Consolidated Mortgage,	$341,802
" Consolidated Mortgage, all sinking funds suspended,	1,235,150
" Improvement Mortgage, " " "	561,840
" Real Estate Obligations,	152,595
" Car Trusts,	174,600
" General Mortgage Scrip and Perkiomen Scrip,	55,199
" January Coupon on General Mortgage for three years (afterwards all coupons to be paid),	765,430

Of the Coal and Iron Company.

On Divisional Coal Land Mortgages as follows:—

Wm. Bowers and others,	in full	7	per cent.,	$11,410
B. W. Cumming,	"	7	"	1,260
Munson & Williams,	"	7	"	83,930
Shamokin & Bear Valley,	"	7	"	20,580
Wetherill and others,	"	7	"	34,370
Isaac May,	"	7	"	2,310
Big Mt. Improvement Co.,	"	7	"	7,770
William Riehle,	"	5	"	8,000
Little Schuylkill Co.,	"	6	"	23,520
John Merino,	"	7	"	1,260
Phila. & Mahanoy Coal Co.,	"	7	"	45,430
Total to be paid in full,				$239,840

The following to be paid in cash at reduced rates:—

Brady Coal Co.	At	6	per cent.	11,460
Charles Baber,	"	6	"	9,720
E. M. Beatty,	"	6	"	2,400
Forbes & Delano,	"	6	"	30,540
John R. Lessig,	"	6	"	1,020
Levi Mattson,	"	6	"	3,000
Mt. Carmel Locust Mt. C. Co.	"	6	"	21,000
Thos. H. Walker,	"	6	"	8,760
Swatara Company,	"	6	"	58,680
Carey Hart *et al.*,	"	5	"	13,650
Glentworth Tract,	"	5	"	10,150
Isaac W. Hughes,	"	5	"	650
Locust Mt. Summit Imp. Co.,	"	5	"	13,000
Richardson's Executors,	"	5	"	17,300
J. Van Reed,	"	5	"	1,100
Samuel Huston,	"	5	"	26,000
C. Tower,	"	5	"	11,550
Hammett Executors,	"	5	"	5,200

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Sam. R. Jackson,	At 5 per cent. . .	$3,300	
Tamaqua Tract,	" 4 " . .	63,840	
Richard Wood's Executors,	" 4 " . .	1,960	
Joseph Jeanes,	" 4 " . .	5,440	
Richard C. Dale,	" 4 " . .	1,040	
Peter A. Ahl,	" 4 " . .	3,640	
Helfenstein Tract,	" 4 " . .	16,320	
Hart Lea and others,	" 4 " . .	2,440	
Chandler Tract,	" 4 " . .	6,000	
Valley Furnace Lands,	" 4 " . .	49,600	
West Point Iron Co.,	" 4 " . .	5,160	
Kemble Tract,	" 4 " . .	600	
Guy E. Farquhar,	" 4 " . .	4,400	
Jno. H. Krause,	" 4 " . .	14,520	
			$663,280

to be reduced to 4 per cent., ... 18,488
Phila., Germantown and Norristown R. R. Co., in full, ... 291,104
Chestnut Hill R. R. Co., in full, ... 17,201
Pickering Valley R. R. Co. Interest on Guaranteed Bonds to be reduced to 4 per cent., ... 12,424
Catawissa R. R. Co., in full, ... 357,390
Allentown R. R. Co., in full, ... 3,635
Chester Valley R. R. Co., in full, ... 11,210
North Penna. R. R. Co., in full, ... 861,751
Delaware and Bound Brook R. R. Co., in full, ... 270,425
Schuylkill Navigation Co. All interest to be paid in full; overdue bonds to be extended for ten years with power of

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35-U.

It is Proposed to Pay the Following Interest in Cash as it Matures.

Of the Railroad Company.

	Annual amount payable in cash.
On Mortgage Loans prior to Consolidated Mortgage,	$341,802
" Consolidated Mortgage, all sinking funds suspended,	1,235,150
" Improvement Mortgage, " " "	561,840
" Real Estate Obligations,	152,595
" Car Trusts,	174,600
" General Mortgage Scrip and Perkiomen Scrip,	55,199
" January Coupon on General Mortgage for three years (afterwards all coupons to be paid),	765,430

Of the Coal and Iron Company.

Addenda to Pages 22 and 25.

At the stated meeting of the Board of Managers of The Philadelphia and Reading Railroad Company, held February 4th, 1885, the following resolution was unanimously adopted:—

Resolved, That the plan of reorganization, adopted January 26th, 1885, be so modified in relation to the Improvement Mortgage Bonds and the General Mortgage Bonds, as to suspend the respective sinking funds for those mortgages for five years from January 1st, 1885, or until such earlier time when the Company shall give due notice of its readiness to resume the sinking fund stipulations; also that the provisions in that plan for suspension of sinking fund under the Consolidated Mortgage be withdrawn.

Mt. Carmel Locust Mt. C. Co.	"	6	"	21,000
Thos. H. Walker,	"	6	"	8,760
Swatara Company,	"	6	"	58,680
Carey Hart *et al.*,	"	5	"	13,650
Glentworth Tract,	"	5	"	10,150
Isaac W. Hughes,	"	5	"	650
Locust Mt. Summit Imp. Co.,	"	5	"	13,000
Richardson's Executors,	"	5	"	17,300
J. Van Reed,	"	5	"	1,100
Samuel Huston,	"	5	"	26,000
C. Tower,	"	5	"	11,550
Hammett Executors,	"	5	"	5,200

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Sam. R. Jackson,	At 5 per cent. . .	$3,300	
Tamaqua Tract,	" 4 " . .	63,840	
Richard Wood's Executors,	" 4 " . .	1,960	
Joseph Jeanes,	" 4 " . .	5,440	
Richard C. Dale,	" 4 " . .	1,040	
Peter A. Ahl,	" 4 " . .	3,640	
Helfenstein Tract,	" 4 " . .	16,320	
Hart Lea and others,	" 4 " . .	2,440	
Chandler Tract,	" 4 " . .	6,000	
Valley Furnace Lands,	" 4 " . .	49,600	
West Point Iron Co.,	" 4 " . .	5,160	
Kemble Tract,	" 4 " . .	600	
Guy E. Farquhar,	" 4 " . .	4,400	
Jno. H. Krause,	" 4 " . .	14,520	
			$663,280
Interest on Real Estate Liens, ...			29,554
" " Bechtelsville Iron Co. Bonds, ...			3,480
" " Ringgold Iron Co. Bonds, ...			1,540
" " Havre Iron Co. Bonds, ...			1,800
" " Preston Coal and Improvement Co. Bonds, ...			700
" " Tremont Coal Co. Bonds, ...			21,000
" " Mammoth Vein Coal & Imp. Co. Bonds,			6,160
Total Interest, ...			$4,014,130

Rentals to be paid in Cash.

Mt. Carbon and Port Carbon R. R. Co., in full, ...	$31,594
Mill Creek and Mine Hill Nav. and R. R. Co., in full, ...	29,799
Schuylkill Valley Nav. and R. R. Co., in full, ...	27,775
Mine Hill and Sch. Haven R. R. Co., in full, ...	297,149
Little Sch. Nav. R. R. and Coal Co., in full, ...	185,227
East Mahanoy R. R. Co., in full, ...	10,613
East Penna. R. R. Co., in full, ...	75,657
Colebrookdale R. R. Co. The interest on Guaranteed Bonds to be reduced to 4 per cent., ...	19,488
Phila., Germantown and Norristown R. R. Co., in full, ...	291,104
Chestnut Hill R. R. Co., in full, ...	17,201
Pickering Valley R. R. Co. Interest on Guaranteed Bonds to be reduced to 4 per cent., ...	12,424
Catawissa R. R. Co., in full, ...	357,390
Allentown R. R. Co., in full, ...	3,635
Chester Valley R. R. Co., in full, ...	11,210
North Penna. R. R. Co., in full, ...	861,751
Delaware and Bound Brook R. R. Co., in full, ...	270,425
Schuylkill Navigation Co. All interest to be paid in full; overdue bonds to be extended for ten years with power of	

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earlier redemption at full rate of interest, and 5/7 of present dividends to be paid in cash, remaining 2/7 to be capitalized, in stock, as hereafter provided.		
Total,		$585,620
Susquehanna Canal Co. Interest on Mortgage Loans of 1894 to be paid in full. Interest on State of Maryland Loan to be paid at 4 per cent. All other Loans to be converted into, and Capital Stock to be purchased with, Second Series 5 per cent. Income Bonds as hereafter provided. Total annual cash payment,		66,518
Shamokin, Sunbury and Lewisburg R. R. in full,		40,700
Schuylkill and Lehigh R. R. Co.	" at 4½ per cent.	27,015
Swedesford Bridge Co.,	"	1,870
Central R. R. Co. of New Jersey. All interest to be paid in full and for five years dividends on stock to be paid only out of earnings on the line, as hereinafter provided. Total annual fixed payment required for five years,	$4,769,380	
Deduct interest on Receivers' Certificates and Floating Debt to be paid with proceeds of Loan for P. & R. R. R. Co. Floating Debt,	99,906	
Net amount C. R. R. of N. J.,		4,669,474

Add for Proposed New Loan for Floating Debt.

Interest on $20,000,000 at 5 per cent.,	1,000,000

Add for Guarantees.

Philadelphia, Newtown and New York R. R. Co. Bonds. Interest to be reduced to 4 per cent.,	19,200
Norristown Junction R. R. Co. Bonds in full,	2,800
Stony Creek R. R. Co. Bonds, "	24,500
North East Penna. R. R. Co. Bonds, "	11,200
Hamburg Iron Co. Bonds, "	1,715
Total,	$12,967,184
Deduct interest on General Mortgage Scrip and on Perkiomen Scrip proposed to be paid with Floating Debt Trust Loan,	55,199
Total fixed charges under proposed reorganization,	$12,911,985
Net revenue for 1884, as shown above,	$12,896,534

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METHOD OF DEALING WITH SECURITIES NOT TO BE PAID IN FULL.

General Mortgage.

For the July coupons for three years, beginning with that of July 1st, 1885, there will be given scrip in Series A, B, and C, respectively, one series for each year, not bearing interest, but redeemable (with interest at six per cent. from date of maturity of coupon, until payment) out of first surplus earnings, before any subsequent interest not embraced in above fixed charges is paid. The surplus earnings of any one year not to be used for payments of a series of a following year, but in all cases to be applied to the series of a past year, if any is left unpaid. The General Mortgage Bonds to be stamped with release of sinking fund clauses until the Company desires to resume them. Upon delivery of the scrip the three coupons surrendered are not to be canceled, but to be retained by Trustees as security for the payment of the scrip.

A holder of a $1000 General Mortgage Bond will therefore retain his present bond and receive on surrender of coupons:—

	For 6 per cent. Bond.	For 7 per cent. Bond.
Scrip Series A, for July coupon, 1885,	$30	$35
" " B, " " 1886,	30	35
" " C, " " 1887,	30	35
Total scrip,	$90	$105
Cash for January, 1885, coupon,	$30	$35

Income Mortgage.

These bonds to be converted into an absolute Income Bond, retaining security of the mortgage; with interest reduced to six per cent. per annum, payable only out of earnings after providing for all arrears of General Mortgage interest, but cumulative, so that all arrears of Income Mortgage interest shall be and remain a charge upon income next succeeding that of the General Mortgage.

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The bonds to have new sheets of coupons annexed, and to be stamped with proper agreements to carry above provision into effect, and also with release of all sinking fund clauses, so that no claim for payment of principal before maturity or right to prevent dividends upon stock shall exist. All overdue coupons to be added to principal of existing bonds, and converted into the new form of bond, which will bear interest payable out of income from December 1st, 1884. The amount of bonds required for the adjustment will be—

Outstanding bonds,	$2,154,000
Overdue coupons to December 1st, 1884, inclusive,	156,820
Total,	$2,310,820

A holder of a $1000 Income Mortgage Bond, with June and December, 1884, coupons attached, will receive, in lieu of his present bond, $1070 of the New 6 per cent. Income Mortgage Bonds bearing interest payable out of income from December 1st, 1884.

Convertible Adjustment Scrip.

This scrip, with the coupon due January 1st, 1885, to be converted at par into the modified 6 per cent. Income Mortgage Bonds above described at par. The July, 1884, and any prior overdue coupons to be paid in cash.

Amount outstanding,	$2,264,610
Coupon of January 1st, 1885,	67,938
Total Income Bonds to be issued for this scrip,	$2,332,548

A holder of $1000 of this scrip, with July, 1884, and January, 1885, coupons attached, will receive in exchange $1030 of the New Income Mortgage Bonds bearing interest payable out of income at six per cent. from December 1st, 1884, and $30 in cash for the July, 1884, coupon.

First Series 5 per cent. Consolidated Mortgage Bonds.

The overdue coupon of these bonds, and that due May 1st, 1885, to be converted at par into First Series 5 per cent. Consolidated Mortgage Bonds (ex May, 1885, coupon)

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at par—and upon the release of a sufficient number of the unissued Income Mortgage Bonds now pledged for the floating debt, the entire issue of First Series 5 per cent. Consolidated Mortgage Bonds then outstanding will be recalled, and the holders thereof will be entitled to exchange them at par for the new 6 per cent. Income Mortgage Bonds, bearing interest from June 1st, 1885.

Amount of bonds outstanding, ...	$3,194,328
Coupons to May 1st, 1885, inclusive, to be funded, ...	161,150
Total to be converted into Income Mortgage Bonds, . .	$3,355,478

A holder of a $1000 bond of this class, having the November, 1884, and May, 1885, coupons attached, will be entitled first to receive $50 in like first series bonds in exchange for the two coupons named, and afterwards to exchange his bonds and its accretion of $50 for $1050 of the New Income Mortgage 6 per cent. Bonds, bearing interest payable out of earnings from June 1st, 1885.

Second Series 5 per cent. Consolidated Mortgage Bonds.

These to be retired, and for them, and for the other obligations hereafter mentioned, there will be issued, under the same mortgage, New Second Series 5 per cent. Consolidated Mortgage Income Bonds, having fifty years to run, from February 1st, next, and entitled to interest from February 1st, 1885, up to five per cent., payable out of earnings only, and after all prior income charges are provided for.

Amount outstanding, ...	$1,732,052
Coupons and interest to February 1st, 1885, ...	86,737
Total, ...	$1,818,789

A holder of a $1000 bond of this class, having the coupons of August, 1884, and February, 1885, attached, will be entitled to receive in exchange therefor $1050 of the New Second Series 5 per cent. Consolidated Mortgage Income Bonds.

Convertible Bonds.

These with arrears of interest to February 1st, 1885, to be converted at par into the New Second Series 5 per cent.

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Consolidated Mortgage Income Bonds at par, stamping all of the latter issued for this purpose with the right of conversion at par into common shares of the Company at par for a period equal to that during which such right of conversion now exists. Each holder of $1000 Convertible Bonds to receive also an additional $60 in New Second Series 5 per cent. Consolidated Mortgage Income Bonds not stamped with right of conversion.

Amount outstanding,	$10,406,900
Coupons and interest to February 1st, 1885,	371,849
Total to be stamped with right of conversion,	$10,778,749
Amount to be issued unstamped,	624,360
Total,	$11,403,109

Some of these bonds have no coupons attached, prior to that due July, 1885. Most of the others have July, 1884, and January, 1885, coupons attached. Holders of $1000 of each of the above classes of these bonds will respectively receive

	For Bonds of the First Class.	For Bonds of the Second Class.
New Second Series Income Bonds, stamped with right of conversion,	$1005 83⅓	$1075 83⅓
New Second Series Income Bonds, not stamped with right of conversion,	60 00	60 00
Total,	$1065 83⅓	$1135 83⅓

Debenture Bonds of the Railroad Company.

These with interest to February 1st, 1885, to be converted at par into the New Second Series 5 per cent. Consolidated Mortgage Income Bonds at par.

Amount outstanding,	$662,300
Coupons and interest to February 1st, 1885,	69,834
Total,	$732,134

A holder of a $1000 bond of this class, with July, 1884, and January, 1885, coupons attached, will receive in exchange $1065 of the New Second Series 5 per cent. Consolidated Mortgage Income Bonds.

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Debenture and Guarantee Scrip.

This scrip with interest to February 1st, next, to be converted at par into the New Second Series 5 per cent. Consolidated Mortgage Income Bonds at par.

Amount outstanding,	$493,240
Coupons and interest to February 1st, 1885,	65,711
Total,	$558,951

A holder of $1000 of this scrip, with July, 1884, and January, 1885, interest unpaid, will receive in exchange $1065 in the New Second Series 5 per cent. Consolidated Mortgage Income Bonds.

Debenture Bonds of the Coal and Iron Company.

These bonds at 105, with interest to February 1st, at par to be converted into the New Second Series 5 per cent. Consolidated Mortgage Income Bonds at par.

Amount outstanding at par,	$1,114,000
Premium at 5 per cent.,	55,700
Coupons and interest to February 1st, 1885,	86,322
Total,	$1,256,022

A holder of one of these $1000 bonds, having coupon of September, 1884, attached, will receive in exchange $1114.16⅔ in New Second Series 5 per cent. Consolidated Mortgage Income Bonds.

Colebrookdale Railroad Company Bonds.

To these bonds new sheets of coupons bearing interest at four per cent. to be affixed, and the bonds to be stamped with proper agreement for reduction of interest.

Pickering Valley Railroad Company Bonds.

To these bonds new sheets of coupons bearing interest at four per cent. to be affixed, and the bonds to be stamped with proper agreement for reduction of interest.

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Philadelphia, Newtown and New York Railroad Company Bonds.

To the $480,000 of these bonds held by the public, new sheets of coupons bearing four per cent. interest are to be affixed, and the bonds to be stamped with proper agreement for reduction of interest to four per cent. The $220,000 of bonds held by The Philadelphia and Reading Railroad Company to be stamped with an agreement that they shall be subsequent in lien under the mortgage to the remaining $480,000.

Susquehanna Canal Company.

The interest upon the claim of $1,000,000 held by the State of Maryland to be reduced to four per cent. The subsequent loans with accrued interest to February 1st to be converted at par into, and the stock at fifty per cent. with accrued dividends to November 30th, 1884, at par, to be purchased with New Second Series 5 per cent. Consolidated Mortgage Income Bonds at par.

Loan of 1902,	$170,000	
Interest to February 1st, 1885,	12,892	
		$182,892

A holder of $1000 of these bonds, with coupons of July, 1884, and January, 1885, attached, will receive in exchange $1075.83⅓ in the New Second Series 5 per cent. Consolidated Mortgage Income Bonds.

Loan of 1918,	$1,007,000	
Interest to February 1st, 1885,	65,455	
		1,072,455

A holder of $1000 of these bonds, with July, 1884, and January, 1885, coupons attached, will receive in exchange $1065 in the New Second Series 5 per cent. Consolidated Mortgage Income Bonds.

Capital stock, $995,950 @ 50 per cent.,	$497,975	
Dividends to February 1st, 1885,	154,372	
		652,347

A holder of forty shares of this stock would receive in payment for it $1300 in the New Second Series 5 per cent. Consolidated Mortgage Income Bonds.

Total, ... $1,907,694

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DIVISIONAL COAL LAND MORTGAGE BONDS NOT PAID IN FULL.

New sheets of coupons at the reduced rates to be affixed to such of these coupon bonds the interest on which is reduced, and all bonds affected by reduction to be stamped with proper agreement to reduce interest, the owners of the bonds to receive for one-half of the aggregate interest surrendered for the remainder of the term of the bond, discounted at six per cent. per annum, the common stock of The Philadelphia and Reading Railroad Company at par.

Amount of stock to be issued, ... $573,142

Holders of $1000 bonds having seven years to run would receive the following amounts in stock:—

Those reduced to 4 per cent., . $81 37½ in stock per $1000 bond.
" " " 5 " " . 54 25 " " " " " "
" " " 6 " " . 27 12½ " " " " " "

CENTRAL RAILROAD COMPANY OF NEW JERSEY.

The lease of this Company to be modified so as to provide that for five years the annual rental to be paid shall only embrace the fixed charges of the Central Railroad Company of New Jersey, and such dividends, up to six per cent. per annum, upon the stock of the Company as are earned upon the line in excess of its fixed charges after including in the earnings a proper allowance for terminals and car service and for the deflection of traffic at Bound Brook.

This is not a matter for the separate volition of each stockholder as regards his individual holding, but is to be determined by the stockholders of the Central Railroad Company as a body corporate. The necessary indulgence will be required only during the few critical years of depression in the coal trade, after which the existing provisions of the lease are to revert in their original force.

SCHUYLKILL NAVIGATION COMPANY.

The lease of this company to be modified so as to provide for annual dividends of one dollar and of fifty cents, respect-

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ively, to the preferred and common shareholders. And upon such modification being made and properly ratified by the shareholders, every preferred shareholder of the Navigation Company shall receive one share of Philadelphia and Reading Railroad Company common stock for each seven and one-half shares of preferred stock held by him, and every common shareholder of the Navigation Company shall receive one share of Philadelphia and Reading Railroad Company common stock for each fifteen shares of common stock held by him.

Amount of P. & R. R. R. Co. stock to be issued, ... $422,875

In this case, also, no individual stockholder has occasion to communicate with The Philadelphia and Reading Railroad Company.

Preferred Stock of The Philadelphia and Reading Railroad Company.

For all past earned dividends, amounting to 21 per cent., common stock of The Philadelphia and Reading Railroad Company will be given, the form of certificates for the preferred stock being so changed that hereafter the seven per cent. dividend shall not be cumulative.

Amount of Common Stock to be issued, ... $325,878

A holder of one share of Preferred Stock will receive as his dividend $10.50 in Common Stock.

☞ Note.—In all cases scrip will be issued for fractional amounts of bonds, convertible in proper amounts into the definitive bonds.

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Upon the above reorganization being accomplished the fixed charges of the Company for three years can all be met out of earnings of	$12,911,985
Upon earnings in excess of fixed charges:— *The first preference* among the Income Securities will be for three years the July coupon of the General Mortgage Bonds,	765,430
Amount required to pay General Mortgage interest in full, and after expiration of three years representing fixed charges of the Company,	$13,677,415
The second preference will be the interest on the 6 per cent. Income Mortgage Bonds, including those issued for First Series 5 per cent. Consolidated Mortgage Bonds,	479,931
Amount required to pay interest on Income Mortgage Bonds,	$14,157,346
The third preference will be the interest on the New Second Series 5 per cent. Consolidated Mortgage (Income) Bonds,	883,835
Amount required to pay interest in full on Second Series 5 per cent. Consolidated Mortgage Income Bonds, and embracing all claims upon net income preceding that of shareholders,	$15,041,181
7 per cent. dividend on Preferred Stock,	108,626
Amount of net earnings required to pay dividends on Preferred Stock,	$15,149,807
6 per cent. dividend on Common Stock,	2,072,311
Amount of net earnings required to pay 6 per cent. dividends on Common Stock,	$17,222,118

Any increase over the above earnings would go to the holders of Deferred Income Bonds up to 6 per cent. upon their par value.

NOTE.—The above figures assume that the earnings of the Central New Jersey lines will not exceed the fixed charges of that Company, and therefore any sum earned as dividends must be added to the several amounts in above table.

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The net earnings of the three Companies, viz., The Philadelphia and Reading Railroad Company, The Philadelphia and Reading Coal and Iron Company, and the Central Railroad Company of New Jersey, have been as follows:—

Year.	Net earnings.	Deduct revenues from securities owned by company, about	Balance.
1880,	12,651,299	$500,000	$12,151,299
1881,	14,806,077	500,000	14,306,077
1882,	15,637,073	500,000	15,137,073
1883,	17,772,941	500,000	17,272,941
1884,	13,396,534	500,000	12,896,534

Holders of the securities affected by the above plan (other than stockholders of the Central Railroad Company of New Jersey and of the Schuylkill Navigation Company) are requested to signify their acceptance of its provisions, prior to March 31st, 1885, according to the form appended hereto, and to forward the same to either of the below mentioned addresses which may be most convenient to them respectively, viz.:—

ALBERT FOSTER,
Secretary Philadelphia and Reading Railroad Company,
No. 227 South Fourth street, Philadelphia.

ALBERT FOSTER,
Secretary Philadelphia and Reading Railroad Company,
No. 15 Cortlandt street, New York.

D. G. BRUCE-GARDYNE,
Manager London Agency,
No. 43 Coleman street, London, E. C.

Forms for acceptance containing full directions can also be obtained at either of the above places.

Negotiations for the changes proposed in the leases of the Central Railroad Company of New Jersey and the Schuylkill Navigation Company will be opened directly with those Companies, who will be expected to communicate with their own shareholders.

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Upon the full acceptance of the above plan the Managers will make all necessary arrangements to carry the same into immediate effect.

Acceptances by the several creditors will not be considered binding upon them, until the public announcement by the Board of Managers that sufficient acceptances have been received to carry the plan of reorganization into effect.*

By order of the Board of Managers.

GEO. DEB. KEIM,
President.

GENERAL OFFICE PHILADELPHIA AND READING RAILROAD COMPANY,
No. 227 SOUTH FOURTH STREET.
PHILADELPHIA, January 26th, 1885.

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* While the figures, amounts, and calculations embraced in the foregoing pages are believed to be correct, they are to be considered as subject to revision for the correction of errors.

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THE PHILADELPHIA AND READING RAILROAD COMPANY.
GENERAL OFFICE, 227 SOUTH FOURTH STREET.

PHILADELPHIA, March 3d, 1885.

To the General Mortgage Bondholders of The Philadelphia and Reading Railroad Company:

The Committee professing to act for your interests having taken the attention of the public to an undue extent, and unnecessarily disturbed the minds of persons interested in all Reading securities, and having demanded unreasonable changes in the plan of reorganization, failing to secure which, they now refuse to accept the plan, and talk of themselves attempting to reorganize the Company, it is deemed proper to give publicity to the answer of the Managers to the formal demand of that Committee, especially since that information was refused by the Committee to its own constituents at their meeting held yesterday. That Committee, it must be remembered, do not pretend to represent any of the great mass of Reading securities except the General Mortgage, and are, therefore, obviously unsuitable guides in a movement affecting so many other interests; also that of the General Mortgage bonds which they assume especially to champion, they claim to represent but about $3,000,000 out of about $25,000,000. We have, however, reason to believe that they do not really control more than a fraction of $3,000,000.

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There is in the judgment of the Managers no good reason for apprehension on the part of any one interested in Reading that injury beyond annoyance and delay will be done by this Committee. Should foreclosure become necessary, it may safely be assumed that it will be carried into effect, not by a slender group of holders of a single class of Reading securities, but by those who have at heart and who legitimately represent the interests of all.

At a recent meeting between sub-committees of Mr. Bartol's Committee and the Managers of the Company, the Managers offered to engraft the following conditions upon the plan of reorganization.

First.—That until the permanent funding of the floating debt, no payment of interest thereon shall be made out of earnings beyond the amount received from the collaterals pledged for it, until the interest maturing on the General Mortgage and preceding obligations is paid.

Second.—That the scrip issued for the deferred coupons of the General Mortgage bonds be made absolutely payable in five years from the maturity of the respective coupons represented by the three series of scrip.

Third.—That a deed of trust pledging the three deferred coupons for the payment of the three several series of scrip be executed by the Company, giving to the trustee proper power of enforcing the provisions of the reorganization scheme, and authorizing the surrender of the coupons in exchange for the proper scrip upon demand of the holders of the latter in case of any default, &c.

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Fourth.—That instead of recovering the coupon for default, the holder of the scrip, if he desires to retain the scrip, may elect to consider its principal as absolutely due on any default by the Company.

Subsequently Mr. Bartol's Committee in writing accepted the first three of the above, rejected the fourth, and made further demands, which are set forth in the following reply of the Company.

By order of the Board of Managers.

GEO. DEB. KEIM,
Prest.

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THE PHILADELPHIA AND READING RAILROAD COMPANY.
GENERAL OFFICE, 227 SOUTH FOURTH STREET.
PHILADELPHIA, February 28th, 1885.

H. W. Bartol, Esq., Chairman,

DEAR SIR.—I have to acknowledge the receipt of your communication of the 25th inst., and am directed by the Managers to make the following reply to the several propositions embraced in the resolution of your Committee which you enclose.

For convenience of reference, I repeat in their proper order those propositions of your Committee, giving to each the answer of the Managers.

"1. The suspension of the Sinking Fund of the Improvement Mortgage shall be consented to by more than seven-eighths in interest of the holders of the Improvement Mortgage bonds."

The Company should not be asked to consent to this, because it would place in any adverse interest holding one-eighth of the Improvement Mortgage bonds a power to overthrow the whole plan of reorganization, which it does not now possess, and which the Managers are unwilling to bestow.

Probably such one-eighth adverse interest does not exist, but you must see how impracticable it might be in a limited time to identify more than seven-eighths of the holders of these coupon bonds, even if all are friendly. Thus the mere non-action of one-eighth friendly interest would, under your proposition, be more fatal than one-eighth actively hostile now can be. It is proposed to call a public meeting in London of the holders of the Improvement Mortgage bonds, at which meeting a vote large enough to satisfy the requirements of the London Stock Exchange will probably be cast

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in favor of the suspension of the Sinking Fund drawings.* Such vote should satisfy both the Managers and the holders of the General Mortgage bonds.

"2. The plan of Financial Reorganization, as modified, shall be accepted by the holders of more than nine-tenths of the General Mortgage bonds."

The Company should not consent to this, because it places in the holders of one-tenth of the General Mortgage bonds the power to prevent the acceptance of the plan of reorganization, and to thwart all efforts to extricate the Company from difficulties. The Managers hope their plan will receive the approval of fully nine-tenths of the General Mortgage bondholders; but if they should announce that the entire plan would be abandoned in case the holders of one-tenth of the General Mortgage bonds decline to accept its provisions, they would simply invite hostile interests to gather General Mortgage bonds to the amount thus unnecessarily empowered to do mischief.

"3. The proposed modification of the lease of the Central Railroad of New Jersey shall be effected, limiting the rent thereunder to the fixed charges of the Central property, and such further earnings as may be realized."

The modification of the Central New Jersey Company's lease, exactly as here proposed, is part of the published plan of reorganization, but has not yet been acted on by that Company. One of the great difficulties in coming to an adjustment with that Company is the apprehension entertained by its officers of danger resulting from the threatening attitude of your Committee. None of us would wish those officers to insist that a settlement with the General Mortgage bondhold-

* The issue of Improvement Mortgage bonds was made exclusively in London, and is quoted on the London Stock Exchange, whose committees recognize majority votes properly cast at public meetings.

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ers must be effected before they are asked to consent to any modification of its lease. If each of the fifty-three classes of Reading Company's creditors affected by the plan of reorganization could insist that the other fifty-two classes should first accept its provisions, the plan must fail, while, if each accedes, expecting the others to do likewise, it must succeed.

"4. The proposed Collateral Trust Loan of $20,000,000 at five per cent., or so much thereof as may be necessary to discharge all overdue coupons of the General and prior mortgages and scrip issued therefor, Receivers' certificates of the Railroad and Coal and Iron Companies, overdue taxes, and all floating debt, shall be negotiated, and the proceeds applied in that order."

This request is inadmissible and impracticable, for the following reasons:—

First.—It requires the floating debt to be paid last out of the proceeds of a Collateral Trust Loan, though this very floating debt now constitutes a first lien upon the identical collaterals, and must be paid as a condition precedent to placing them in the trust loan. The many banks and financial institutions now holding the collaterals as security for their claims would hardly consent to surrender them for the payment of this Company's obligations in such order that their own claims are transferred from the first to last in order of priority.

Second.—General acceptance of the whole plan of reorganization is a necessary condition to the successful creation of a trust loan. After the reduction of the fixed charges by the acceptance of the plan, the Managers and the public will feel some confidence in the ability of the Company to pay off the floating and other indebtedness necessary to be cleared away. The Managers are devoting their attention very earnestly to this subject, but they perceive that those who would be asked

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to contribute the necessary money for this purpose may reasonably demand that the plan of reorganization should be accepted by the General Mortgage bondholders before they part with their money.

"5. The stock of the Coal and Iron Company, now pledged as collateral shall be redeemed, and in consideration of the waiver of the Sinking Fund of the General Mortgage to and including 1884, and its further suspension for five years, said stock shall be transferred to the trustee of that mortgage as collateral for the ultimate payment of principal and interest of that mortgage."

As to this, the Managers desire me to say that prior to the final acceptance and successful carrying out of the plan of reorganization, including the payment of the floating debt, they do not think that it would be prudent to part with the stock of the Coal and Iron Company in the manner proposed, as its possession by them may become an essential requisite in case the necessity should arise for any compulsory reorganization under foreclosure proceedings. But they will agree that after the successful carrying out of the plan of reorganization and the funding of the floating debt, &c., the stock of the Coal and Iron Company, with proper provisions as to voting powers by the Company, shall be placed in some proper trust to protect the scrip issued for the three deferred July coupons of the General Mortgage bonds, and they will further agree that the said scrip shall be made absolutely payable in five years from the maturity of the respective coupons.

"6. Unless reorganization upon the basis herein set forth is effected by May 1st, 1885, and the money raised on the collateral trust loan prior thereto, the assent given shall be of no further effect."

The Managers cannot accept this limitation of thirty days after March 31st within which to carry out the plan of reor-

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ganization and raise the money to pay the floating debt, &c. More time than that is needed to prepare the new bonds and forms to carry the plan into effect after its acceptance, and in putting out a new loan it is customary to allow several months within which the subscribers may pay the deferred instalments on their subscriptions.

"7. It is further conditioned that, in the event of any violation of the plan of reorganization, or any default, the rights of the holders of all securities shall be reinstated and shall be the same as if this plan of reorganization had not been adopted, and that nothing contained in said amended plan of reorganization shall deprive the holders of the General Mortgage bonds, coupons, or scrip, respectively, of any rights, remedies, or privileges, except as specifically agreed on in the clauses of the amended plan of reorganization referring to the deferring of one-half of the General Mortgage interest during three years and the suspension of the sinking fund for five years, but the holders thereof shall have all the rights, remedies, and privileges the same as if this plan of reorganization had not been adopted."

The Managers intend that everything herein claimed, so far as the General Mortgage is concerned, shall be substantially provided for in the proposed deed of trust, to be executed for the protection of the holders of the scrip issued in respect of deferred coupons.

In conclusion, the Managers conceive that your committee has not fully considered how serious are the difficulties in the way of changing the plan of reorganization, which has been for a month before all concerned, in this

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country and in England, and has met no objection but yours. It has received the written adhesion of many millions of the Company's securities, including a larger amount of the General Mortgage bonds than are represented by your Committee, and it has reasonable assurance of the adhesion of much larger amounts. To unsettle the basis of that plan would not only confess doubts which the Managers do not entertain of the propriety of the plan, and fatally spread such doubts, but would cause so great loss of time as to prevent any reorganization within the extremely narrow limit of sixty days from February 21st, set by the recent order of court to the Receivers. It is clearly the duty of the Managers, after having carefully studied the matter as they did, to adhere to their plan, unless grave specific faults with clear and practicable specific remedies should be pointed out. They proceed therefore, with the trust, that, before March 31st, assent to the plan will be so general as to justify them in announcing that it will forthwith be carried out. They hope that your Committee having fulfilled the task imposed by its constituents, will generously and promptly give its aid and support to that plan; or, if as a body they cannot do this, that at least those of its constituents will do so who, while naturally desiring the best possible terms for their particular interest, recognize that in so large a matter many interests must be reconciled, and that enlightened selfishness dictates mutual concessions for mutual advantage.

Very respectfully,

(Signed) GEO. DEB. KEIM,

Prest.

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ADDRESS

OF

MR. FRANKLIN B.

TO

THE SHARE AND BONDH

OF

The Philadelphia & Reading Rai

AT THE

ACADEMY OF MUSIC, PHILAI

FRIDAY EVENING, DECEMBE

ALLEN, LANE & SCOTT, PRINTERS, PHILADELI

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MR. GOWEN SAID :—

It is with great regret that I again appear before an audience to talk about the affairs of The Philadelphia and Reading Railroad Company, but I think there never was and probably never can be such a necessity as there is to-day for one who has the welfare of that property at heart to give the owners some information about it that not only is the truth, but is derived from experience and knowledge of the subject.

Before entering upon what I shall have to say to-night, embracing a review of the management of the last two years, with some suggestions as to that of the future, I desire that you will bear with me for a few moments until I recall to your recollection the condition of the Company immediately preceding the time at which I left its service.

Many years ago I made up my mind that there was no great and solid future for a railroad property in the United States unless it controlled its traffic. I believe that the restless activity of the American people was such that wherever a railroad enterprise became successful, a rival line would instantly be established in order to divide its business and curtail its profits, and when I became connected with the Reading Railway Company this danger was more imminent in the case of that corporation than it was in the case of any other Railway Company in the United States. In order to avoid the difficulty and remove the danger, I suggested the purchase of the great body of coal lands. I made the suggestion to the largest shareholders of the Company, whom I was in honor bound to consult, and they approved of it, and sent me out of their own private fortunes the money wherewith to commence the purchases before they were made in the name of the Company, and before the financial arrangements had been perfected to pay for them with the credit of the corporation. Then arose the question as to the method whereby the means to pay for these

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purchases should be raised. It was the simple question of whether they should be paid for by increasing the capital of the Company, or whether they should be paid for by increasing the debt. It was well understood that the obligations of the Company bearing six or seven per cent. interest could be sold at about par; but it was equally well known that the shares of the Company could be sold above par. Every man who knew anything of the subject at all knew perfectly well that it was easier to raise the money by an increase of capital than it was to raise it an issue of new bonds, but the only tribunal which had the right to determine that question was that of the shareholders of the Company. One firm at that time owned more than one-third of the entire share capital of the Company, and controlled through their friends so much more than their own ownership as to give them a majority of any vote that could ever have been cast at a meeting of the proprietors, and that majority had the right to determine whether the purchase of coal lands should be made with capital or should be made with debt, and, as the executive officer of the Company, I was bound to take such decision as a final and conclusive one from which there could be no appeal.

I was told that if the scheme would greatly benefit the Company in the future, it was better to keep the capital small because the dividends would be greater. Again, that if the capital was increased for the purpose of buying coal lands those who then controlled the share capital would be obliged to contribute their full share of the increase or lose their control, and that it was better for the security of the remaining shareholders, and better for the Company, that one strong house should have the control than that the shares should be scattered over the world, and probably be controlled by an enemy; and this view was correct. Accordingly the debt of the Company was increased over $60,000,000, and the annual interest upon such increase was greater than the dividends theretofore payable. Hence arose the financial troubles of the Company.

After the panic of 1873 and after the struggle of 1879, these large payments of interest compelled the Company to suspend payment in the year 1880. Those by whose advice I had been governed, those for whose benefit I had acted, those who ex-

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pected to reap the results of their own foresight, parted company from me when the ship encountered the storm. At that time there were two well defined views as to the condition of the Company. The one was the view expressed by the Messrs. McCalmont Brothers & Company through the committee of bondholders of which Lord Cairns was the chairman; and the other was the opinion that I expressed publicly, boldly, and very defiantly, and sometimes, I am sorry to say, perhaps too aggressively, but it was not in my nature to submit quietly to what I believed to be injustice. The one view was that the Company must be reorganized upon the basis of earnings of $8,000,000 a year. Everybody knew what that meant; everybody knew that if the Company could only earn $8,000,000 a year, the general mortgage bonds would have to submit to concessions, and that the junior creditors and shareholders might be obliged to wait a long time for dividends. The other view advanced by me was that the Company could always earn at least $10,000,000 a year with any kind of proper management. These figures were inscribed upon my flag and I stuck to them. After a short interregum due to the peculiar circumstances in which the share capital was held, I was elected President of the Company in 1882, having remained in control of the business management as one of the Receivers during the whole of 1881.

Now, I call your attention to the fact that in 1881 the Company earned $10,051,000 net; in 1882 it earned $10,647,000 net; in 1883, excluding the earnings of the Central Railroad Company of New Jersey, it earned $11,855,000 net, and I had fully redeemed my promise and demonstrated the correctness of my prediction. I had said three years before that the Company never would earn less than $10,000,000 a year. I earned the first of the three years $10,051,000; the second year I earned $10,647,000; the third year I earned $11,855,000, and I thought that my work was done.

When I was engaged in the memorable struggle with Messrs. McCalmont Brothers & Company, I was forced to appear before the proprietors at public meetings, to address them by circulars, to make appeals for their proxies as politicians solicit votes from the hustings. It was by no means

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a pleasant task—to beg votes for office, especially for an office with which a large salary was connected; but I determined to save the property for those who had invested in it upon the faith of my promises, and to do this I submitted often to great indignity. Three times I faced audiences, twice in foreign countries, with enemies standing before me, who, I was told, were sent there to cry me down—and I begged people to send me their proxies, and to give me their votes, and there I pledged myself to them that if I succeeded, it would not be to keep an office with its salary of thirty thousand dollars a year, but to restore the property to its owners, and so soon as I could accomplish that object, so soon as I could remove the Receivership, so soon as I could turn over the estate to its owners and demonstrate its ability to earn interest upon every dollar of its debt, and dividends on every dollar of its capital, I would retire from office. In January, 1884, that time had come. No honorable man could longer retain an office secured under the pledge that he would retire the moment the object for which he sought it had been accomplished, and I retired, as it was my duty to do.

In what condition did I leave the Company then? What property did I leave to my successor? I left a great railroad; I left a hundred thousand acres of coal lands owned in fee simple, and nearly twenty thousand more held under perpetual control. I left over fifty per cent., probably nearer sixty per cent., of all the anthracite coal in the State of Pennsylvania to supply the railroad with tonnage. I left terminal facilities in the city of Philadelphia unequalled by those of any other company. I left terminal lands on the Bay of New York, held by the lease of the Central Railroad of New Jersey, such as no other company had or could get. I left the Company in friendly alliance with Mr. Vanderbilt, with contracts made for the construction of a line of railroad to Pittsburg affiliated to and guaranteed by companies owning lines through and west of Pittsburg, the whole forming the shortest trunk line to the city of Chicago from New York and Philadelphia, and forming by forty miles the shortest line between Pittsburg and the same cities. I left an alliance with the Baltimore and Ohio Railroad Company under which a line was to be constructed to connect Baltimore with the city

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of Philadelphia, and over which the traffic of the Baltimore and Ohio system would be thrown upon the Reading and Central New Jersey roads to New York. Above and beyond all this I had demonstrated the fact that this great property, the Reading Railroad and the Central Railroad of New Jersey taken together, had earned the last year I had anything to do with it $17,772,000 of net earnings, an amount almost as large as the gross receipts of the great Baltimore and Ohio Railroad Company.

I left as my successor my own personal friend and re-elected the old board of managers who, I believed, would be guided by my advice and counsel, and upon whom I relied implicitly to carry out the directions of the shareholders as expressed at the meeting at which they were elected. When I left the Company nearly two years ago, there was nobody who knew anything about it, that could not but say that I had fulfilled the promises I had made during the struggles of the three or four preceding years.

And now, gentlemen, what is the condition of that property to-day? Shorn of nearly all its strength, with the line to Pittsburg hanging upon the doubtful tenure of a lawsuit, and every pick and every shovel idle along the whole route, with the Central Railroad Company of New Jersey clamoring to get back its property because its rental has not been paid, and the attendant danger that the Reading Railroad Company will be cut off from access to the city of New York; with the Baltimore and Ohio Railroad Company, that was ready and anxious and willing to use the lines of the Reading and the Central New Jersey to New York, about constructing a new railroad from Bound Brook to Staten Island, so as to use instead of ninety miles but sixty miles of the Reading line, and above and beyond all this with the earnings of $17,772,000 cut down to $12,000,000. No other company in the world I will venture to say, can show within the two years such a falling off of net earnings as will be shown by the Reading Railroad Company at the end of the present fiscal year.

What is the cause of all of this? I propose to go into that question very fully to-night. I propose to call your attention to the mistakes that have brought about this desperate condi-

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tion of affairs. When I left the Company the only thing remaining to be done to guard against danger was to pay its floating debt. That floating debt had been largely increased within the preceding year or two; first, due to the purchase of fifty thousand shares of Central Railroad Company of New Jersey stock, which cost about $4,000,000; second, to the purchase at or before maturity of about $1,800,000 of funded obligations which the owners would not exchange into other securities; and, third, to the fact that in consequence of the Pennsylvania Railroad Company engaging in the construction of a new line to the coal fields it became necessary to buy still more coal lands and colliery property, in order that when the competitive line reached the coal region it could not take away the coal tonnage of the Reading Railroad; for you must always bear in mind that under the system of management of the coal trade resulting from the harmonious alliance with the other producing companies, every ton of coal from the Schuylkill region carried by a new transportation line would be deducted from the quota of the Reading Railroad Company—consequently if we permitted the Pennsylvania Railroad Company to secure a million tons of coal per annum it simply followed that in our adjustment of quotas with the other companies we would be obliged to content ourselves with a million tons per annum less, and the loss of earnings resulting from the smaller tonnage would have been frightful to contemplate, as compared with the small amounts of annual interest upon the cost of sufficient additional property to prevent the rival line reducing our tonnage.

I had provided for the payment of the floating debt before I left the Company. The managers had recommended the creation of a loan which was amply secured. I had made arrangements for its sale at a guarantee of five per cent., so that the Reading Railroad Company would have received $11,400,000 in cash for the issue of a $12,000,000 five per cent. loan. The guarantee was to be in this form: Suppose a guarantor undertook to guarantee a million, which was one-twelfth of the loan, he was to receive $50,000 in cash for his undertaking that he would take one-twelfth of all the loan that was not subscribed when offered by public issue.

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In order to show a foundation for the loan before such public issue was made, it was necessary that the traffic accounts of the Company for the then current year should be closed, so that when the books were made up at the end of the fiscal year, every one asked to subscribe could see that the Company had earned far more than enough to pay the interest on the loan.

At the annual meeting at which I retired this loan was ratified by the shareholders. It thereupon became the duty of the management elected at that meeting to issue the loan for the purpose of paying the floating debt.

The first mistake those whom I left in charge made was that they did not comply with the directions of the shareholders, and the reason for that mistake is to-day well known. I did not know it for months, as I shall tell you by and by. But the reason of the mistake was simply this, that they believed they could do better with Messrs. Drexel & Co. than they could with Mr. Gowen. Now I am not here to talk sentiment; I am here to talk business. I am not here to complain that I leaned upon a broken reed. I am not here to complain that I discovered that personal friendship was not a sufficient bond to hold my friend to me, for if I had trusted to that alone in business matters, I would be blamed by business men. But I am here as a business man to complain of the business mistake that threw overboard a guarantee of $12,000,000 at five per cent., because it was thought that better terms could be made with the Messrs. Drexel & Co. That was a business mistake. If the gentlemen whom I left in control of the management of the Company had come to me and said, "Mr. Gowen, you have placed us in office by the vote of your proxies, you relied upon us carrying out the directions of the shareholders' meeting; you knew that your work in this Company was not finally done until the floating debt was paid, and you believed that we would issue the loan—but we have found out something that you did not know; we have discovered that we can heal up the animosity that existed between you and the strong house of Drexel & Co., and if you will only kindly step to one side, this great house of Drexel & Co. will come to our assistance, and the Reading Railroad Company through its aid can not only pay

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its floating debt, but it can secure friends in the future who will be of far more assistance to it than you can possibly be." If they had said this to me, I should have replied: "Of course take Drexel & Co.; their financial assistance is worth more than mine. If my leaving you will secure the aid of that house, and they will take the loan and give you the money, close with them at once." But they said nothing whatever to me on the subject. On the contrary I was led for some time to believe that the question was still being discussed in the board, and that they intended to carry out my project. I have been told since that they were requested by the house of Drexel & Co. to wait until Mr. Anthony Drexel, who was absent, came back, and were told that if they would then throw overboard Mr. Gowen and his visionary financial plans, they should have the solid and enduring assistance of a strong and conservative house like Drexel & Co. They should have done one thing or the other. They should have said to Messrs. Drexel & Co.: "Mr. Gowen has made his arrangements for the sale of this loan; he has people who are ready to guarantee it; he has one friend who will take the half of it; we cannot wait; the floating debt must be paid; if a panic comes, we shall have trouble; we cannot carry so much sail in a storm; we are willing, if you desire it, to throw Mr. Gowen overboard, but if we do you must take the loan." But no such proposition was made. Simply upon the hope that they might secure Mr. A. J. Drexel when he came back, they threw overboard the friend who had the money practically secured for them before he left the Company. This was their first mistake.

Their second mistake was this: In December, January, February, and March of the fiscal year of 1884 there had been longer stoppages in the coal trade than were ever before made. There never had been such restriction of production as there was in December, January, February, and March of that year, except during a strike. The result was that the profits of the Company during those months fell off greatly, and the Company was burdened at that period, for the first time in its history, with the cost of carrying the Central Railroad Company of New Jersey through the winter months, for

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the Central Railroad Company of New Jersey, like the Reading Railroad Company, always makes a great deal of money in the late summer and autumn, and cannot earn fixed charges in the winter, especially during suspensions in the coal trade. Therefore the managers of the Reading Railroad Company knew that, having stopped in December, January, February, and March, and being obliged in those months to pay the rental of the Central Railroad Company of New Jersey, it became absolutely necessary for them to earn money in April, May, and June, or they could not meet the June and July interest payments.

The way to make money in the months of April, May, and June in the coal trade, is to open the price of coal so much lower than it is to be in the fall, that dealers will buy coal, and then to protect the autumn trade by suspensions in July after the July interest payments are made. Everybody in the coal trade knows that—Everybody in the coal trade knows that the great difficulty in the trade has been that the price has been kept so high in the spring that dealers hold back their orders until the autumn, and when the autumn comes the demand for coal is so great that the orders can hardly be filled. But as the fixed charges are distributed over the year the Company must either borrow for its June and July payments, or it must make money in the spring, especially if it has been idle in the winter. I strongly advised at the opening of the season that the price of coal should be great deal lower than the previous year, and that notice should be given that it would advance so that it would be a dollar higher in the fall than in the spring. If that had been done the Company might have made over $3,000,000 without any trouble in the months of April and May. I called at the office one day early in the season and found the officers of the Company who had charge of coal sales and coal prices, in consultation with the President upon the subject, and when I commenced to give my views about the necessity of making prices low enough to secure spring business, they were withdrawn by the President into an adjoining room, the door was closed, and I was left standing alone in the office of that Company.

The price of coal was opened in April without much reduc-

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tion and without any assurance of a future advance. Dealers held back their orders as usual. The Company made but moderate earnings in April and May and were confronted with the large interest payments of the 1st of June without the means of meeting them.

This year their great mistake, the third in the series, has been to keep the price of coal and coal transportation too low. When the profits of the Company have fallen to $12,000,000, or to about seven and a half million excluding the earnings of the Central Railroad of New Jersey; when there is no struggle in the coal trade; at a time when there is absolute harmony among all the six coal producing companies; when not one ton more than the market requires is being mined; when the demand for coal is so great that it is difficult to fill the orders; there must be some frightful mismanagement to account for the loss of earnings amounting, as compared with 1883, to over $5,000,000, and representing when capitalized at five per cent. a depreciation in the value of the property of over one hundred millions of dollars.

Under such conditions as have existed this year, the Company could have had almost any price in reason it chose to ask for coal; why is it then that it is selling coal at tide-water at from fifty to sixty cents a ton less than it got two years ago?

Who will explain this? Gentlemen, fifty cents a ton on twelve million tons is $6,000,000; forty cents a ton on twelve million tons is $4,800,000; thirty cents a ton on twelve million tons is $3,600,000; and amounts of such magnitude are idly thrown away for no other reason under Heaven, that I can discover, unless it be to demonstrate the necessity for a reduction of fixed charges, and to prove how absurd it was for Mr. Gowen to encumber the road with a large coal tonnage. I shall speak of this again this evening. At present, I only desire to say that the reason the Company is not earning $17,000,000 this year, is because either willfully, or from negligence so gross as to amount to criminal incompetency, its Receivers are permitting its valuable anthracite coal tonnage, under a demand so great that they cannot fill their orders, to be sold at thirty or forty or fifty or sixty cents a ton less than they might readily obtain for it.

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The saddest of all the mistakes—and I am speaking now only of business mistakes—is the manner in which the Receivers have treated the floating debt of the Company. The total floating debt, protected by collaterals, has never been more than from ten to eleven million dollars. Any floating debt, not protected by collaterals, cannot give trouble during a Receivership. Therefore, the only danger arose from that which was protected by collaterals, and for the non-payment of the interest upon which the collaterals might be sold. Now, when I tell you that the Receivers for the last year have been permitting the creditors of the Company who hold this floating debt to sell the obligations of the Company deposited for its protection at from twenty-two to forty-five cents on the dollar, when no necessity for such a sacrifice existed, you will think that such was not good business management. Why has this been done? They say, "We are not to blame; the court has prevented us from paying on account of the interest on the floating debt any more than is earned by collaterals deposited for its protection." True. I admit that. I admit that such an order was made by the court upon the application of the general mortgage creditors; but, gentlemen, though this statement is literally true, it is liable to the charge that it embraces both the *suppressio veri* and the *suggestio falsi*, and when the Receivers and their learned counsel say "we can do nothing because the court will not permit us to pay, on account of this floating debt, any more than is earned by the collaterals deposited for its protection,"—they forget to tell you in the first place that the annual revenue from these collaterals was ample to pay the annual interest at market rates upon the whole of the floating debt; and they forget further to tell you that the only reason they have not got enough money to pay five or six per cent. interest to such of the floating debt holders who have sold their collaterals, is that they have taken the liberty at their own sweet will and without any consent of the court of paying from twelve to eighteen per cent. interest to some of the creditors. Where did the court give them such authority? Where upon the records of the court do they find the right, out of the $500,000 or $600,000 of income produced by the collaterals, to pay

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twelve to eighteen per cent. to some persons, and then say, "we have not enough left to pay even five to others."

The day the Company failed last year they borrowed about $650,000 to pay the interest on the consolidated mortgage. They paid the debt in twenty-nine days. They paid six per cent. per annum for the interest, and they paid one per cent for the twenty-nine days for the use of the money. That is over eighteen per cent. per annum for the use of money which the credit of the Receivers and the character of the security given should have secured at four or five per cent.

More than that, gentlemen; I have no doubt that if the transaction was investigated, it would be found that they paid a great deal higher rate than that, because, I have no doubt that interest was charged them on the whole $650,000 from the first day of June, whereas it took twenty or thirty days to pay out the money, and all the time, the money not paid out remained in the possession of those who made these charges.

Again, about a year ago, Mr. Vanderbilt, of whom I shall speak later, desired the payment of a loan amounting to over $800,000—protected by collateral worth about $2,000,000. It came to my knowledge that this debt had to be paid. I went to New York at once, for I was then trying to help the Company all I could, and I found that out of the $825,000 they had to pay, on one item of the collateral alone I could borrow then $640,000 at four and one-half per cent. I told them so. I said: "Here, I will take one of these items out; I will get you $640,000 at four and one-half per cent. on it, and all you have to do is to borrow about $185,000 on the other collaterals;" and their market value at that time was $1,200,000. They said they could do it. One item of the remaining collaterals was the entire share capital of the Telegraph Company owning the network of telegraph lines on the Reading system. It had been paying $20,000 a year dividends. One of the Receivers was the President of a great financial institution, who, with security worth $1,200,000, with one item that would have sold for $400,000 if he had offered it to the Western Union or the Baltimore and Ohio Telegraph Company, could not get $185,000 at any rate, although I had

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offered to get them $640,000 at four and one-half per cent. What did they do? They borrowed the money upon all the collaterals for one year at six per cent. interest, and they paid $50,000 in hard cash, as a bonus, for the privilege of borrowing money at six per cent. which others would have given them at four and one-half per cent. without any bonus whatever.

Gentlemen, that $50,000 thrown away would have paid the interest on $1,000,000 of their floating debt for one year, and for want of such payment they have permitted $3,000,000 of the bonds of the Company to be sold at from thirty to forty cents on the dollar; and such is the conservative business management which contrasts so favorably with the sanguine and visionary methods of Mr. Gowen.

I should like to ask these gentlemen where they got the power from the Circuit Court of the United States to borrow money at from twelve to eighteen per cent. The moment a Receivership is created it should give instant credit to the property it protects. A corporation finds it is obliged to pay eight or ten per cent. for money; it is on the eve of insolvency; its credit has gone; it wants time to recover; its property is placed in charge of a Receiver, and instantly the Receiver has a credit which should enable him to obtain money at the lowest rates of interest. The Receivership of the Reading Railroad Company, taking nearly $50,000,000 a year of gross receipts, with no obligation to pay anything but working expenses except under the direction of the court, could command money at the lowest market rates.

Again, another great mistake of the Receivership has been the treatment of the creditors holding funded debt. Let me tell you how they do business. Six or eight months ago the quarterly interest on the consolidated mortgage debt of the Central Railroad Company of New Jersey fell due. This debt is $15,000,000. There are only $5,000,000 ahead of it. Therefore it represents a charge upon the property of the Central Railroad Company of New Jersey of $20,000,000, the interest on which, assuming it to be seven per cent., is $1,400,000 a year. Bear that in mind. Further, bear in mind that, even under the present splendid management of the Receivers, the

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Central Railroad of New Jersey is earning from four to five millions a year. Bear in mind, further, that the counsel for the Receivers have obtained an order from the Circuit Court of the United States, authorizing to the extent of the earnings of the Central Railroad Company of New Jersey the payment of interest upon the obligations of that company. Here we have three facts: First, the earnings are between four and five millions; second, the first charge for interest is $1,400,000; third, the Receivers are authorized to pay to the extent of the entire earnings. It does not require very great capacity to determine that out of four or five million dollars they have a right to pay $1,400,000. But when the coupons of the loan came due those who held them called at the office of the Central Railroad Company of New Jersey to collect their interest, and they were told "We have not yet heard from the Reading Railroad Company on the subject; they have neither sent us the money to pay these coupons, nor told us when they will;" and there was another shock given to the credit of the concern. The bonds were held by the very best people of New York, men whom the Receivers should have endeavored to conciliate and to placate by every means in their power, but they were told when they presented their coupons, "There is no provision made for their payment, and we have not even heard from the Reading Company on the subject." A few days afterwards they were paid. I can understand perfectly well how, when a man is driven to the wall, when he has no money, he must summon up all his moral courage and meeting his creditor say unto him: "Have patience with me and I will pay thee all." But when you have money, and when you are bound to pay it and intend to pay it, I cannot for the life of me understand the business principle upon which you give the same shock to your credit as if you had not the money. There may be something in it, but my business education does not enable me to understand it.

Again, before I left the Company, as it did not have any surplus capital for new work, and knowing perfectly well that cars had to be constructed for an increasing business, I provided— I say "I," but of course I mean the board of managers. You know it is said that I was a dictator and apt to

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take too much responsibility upon myself, but I think that is just the kind of a person the Company wants now. I provided a car trust, so that the Company, for a year or two at least, should have all the money necessary to provide for the payment of new cars. It was sold to the Union Trust Company, of this city, and sold upon very favorable terms. Last February an instalment of this car trust became due. The people who held the certificates went of course to the Union Trust Company to draw their money; probably some of them left it until half past two or three o'clock in the day, thinking that certainly the money must be ready for them, and they were told: "The Reading Railroad Company has not provided for this payment." They said to the Trust Company: "It is your business to look after it; you are the trustee." "Yes," said the Trust Company, "we have been down to the office every day for a week and sometimes twice a day about it." "Well, what do they say?" "They can't tell me when it will be paid, or what they intend to do." "Why not?" "Because they don't know themselves, but they say that as soon as they find out what they intend to do they will tell me." Three days afterwards the money was paid. Such is the good business management which has supplanted the visionary methods of Mr. Gowen.

One thing is very certain, the Company, in its present strait, should have clung "as the shipwrecked mariner clings to his last plank,"—to every spar of good credit it could find. Every obligation they had to meet which they intended to pay should have been paid promptly. It is bad enough that they made a default on the debentures; it is bad enough that they made a default on the first and second series of fives; it is bad enough that they made default on the income mortgage and the convertible adjustment scrip; it was criminal that they made a default upon the general mortgage; but these car trusts they might have paid promptly. If they had paid them promptly the enhanced value of the security would have been one peg upon which to climb to good credit. The Central Railroad Company of New Jersey's consolidated loan was another,—but no, it seems that, whether they have or whether they have not the money, the one object to attain since they

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have gotten rid of Mr. Gowen is the reputation for conducting the affairs of the Receivership on business principles, no matter what may become of their credit.

Again, and I do not know whether it is the sixth or seventh or eighth, but I think it is the eighth mistake they have made there in the department of economy. They have exercised great economy, they tell us, and I want to tell you how they have applied it. For some years the Reading Railroad Company owned about twenty-two thousand coal cars. The Lehigh Valley had about twenty-nine thousand coal cars. The Reading Railroad was able with twenty-two thousand cars to do nearly twice the business of the Lehigh Valley Company with twenty-nine thousand. That is no reflection upon the management of the Lehigh Valley Railroad Company. The reason was simply this, that the Reading Railroad never permitted its cars to go beyond its lines except to the suburban lines of Philadelphia; but shortly before I left the Company, you will remember, we made an arrangement with the New York Central Railroad Company by which the Pine Creek road was constructed, and we made an arrangement with the Beech Creek, Clearfield and Southwestern Company, by which a line was constructed to share the bituminous coal trade of the Pennsylvania Railroad Company, and in both of those instances we were to put into the trade our proportion of coal cars. I knew perfectly well that the moment the Reading Railroad raised its portcullis and permitted its cars to go beyond the lines of its own road, that instead of making two trips a week with such cars, they might make only two trips a month, and consequently that if the Company desired to keep up its shipments it must have new coal cars. The car trust certificates of which I have spoken would provide the money to pay for the new cars. I gave the order for one thousand coal cars to carry twenty tons each. They were to cost about $500,000. A great deal of the work was to be done during the winter. The whole of the one thousand cars were to be ready by the middle of the summer of 1884, when the rush of business came on. When I left the Company, a great deal of the material for these cars had already been ordered. Additional

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coal cars were an absolute necessity to the Reading Railroad Company. I was amazed a short time after I left the Company to find that an order had been given to stop work on the new cars. They were not constructed. What was the result? Last year the result was just this, that for want of these cars the Reading Railroad Company lost $1,000,000. The total loss of output of anthracite coal by all the companies last year, as compared with the year before, was, I think, one million and thirty-six thousand tons, and out of that one million and thirty-six thousand tons the Reading Railroad, that should have lost about four hundred thousand tons, lost one million and sixty-three thousand tons. There was not much left for the others to lose; the Receivers took good care of that. They did not have cars enough to do the business; they did not secure their proper share of the business. That year there was no quota, but they were entitled to ship just as much coal as they could during periods of work. If they had had the thousand cars to put into the Richmond coal trade in the months of August, September, October, and November, they would have transported with them forty thousand tons a week, making two trips a week with twenty tons to a car. But no, economy required that that tonnage should be saved. If they had constructed the cars they would have had to pay six per cent. on $500,000 for the year, that is $30,000. They would have had to pay one-tenth of the cost at the end of the year, which was $50,000. Therefore, they would have had to pay $110,000 if they had constructed them, but if they were constructed they would have made over a million of dollars more money. Gentlemen, the $110,000 was one of the foolish extravagances of Mr. Gowen, that reckless railroad manager, and it had to be saved, even if it did cost a million of dollars to do it, "for principles and not earnings" was their motto, and they were willing to pour out the shareholders' earnings like water in defense of the Receivers' principles.

Again, we heard a great cry (and I am sure there was very little wool came out of it), at the beginning of last year. We heard a great cry about economy. $2,000,000 were to be saved in wages alone, and they cut them down. They saved $2,000,000, and what was the result? Gentlemen,

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they will make this year $1,350,000 less than they did last year.

Proper economy is at all times commendable. There are times when the wages of men must be cut down, but I want to tell these railroad managers that when unskilled labor is paid a dollar and a half a day the Reading Railroad can earn six per cent. on its shares, and when unskilled labor is cut down below a dollar a day, the Reading Railroad Company can hardly pay its fixed charges. Why is this? It is simply because if the Reading Railroad Company saves $2,000,000 a year in wages in its district, all employers together are saving $10,000,000 in wages, and when $10,000,000 less wages are paid on the line of the Reading Railroad Company, the receipts of the Reading Railroad Company will fall off $3,000,000, which is just one million more than is saved. There is no money paid out that goes into the exchanges of the country and promotes business so quickly as the wages of labor.

Economy was right, but they should never have supposed that because they saved $2,000,000 in wages they were going to increase their earnings that amount. They could not do it. It never has been done and it never can be done. Go out on the line of the Norristown Railroad, say to Manayunk and Conshohocken. When the factories are running full time and good wages are being paid, the cars are full every day, and the laboring man and his family who travel over the road pay full rates for each ticket they buy, say two or three cents per mile. Go to a more fashionable locality, like Chestnut Hill, where the Pennsylvania Railroad Company has just constructed a most extravagant line, and you will find that the rich man living there is a commuter. He buys an annual ticket, and he pays less than a cent per mile for using the line. That is the whole thing in a nutshell.

But there is other economy of which these gentlemen have been guilty. Remember it was announced as an axiom of railroad management four years ago that the Reading Railroad could not earn more than $8,000,000 a year. All the great financial papers of Philadelphia, those I mean who sneeze when the Pennsylvania Railroad takes snuff (and my friends the reporters will kindly oblige me by putting this

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down correctly), had determined that no good business management could make more than $8,000,000 a year out of the Reading Railroad.

There is a system of syllogistic reasoning which those who studied logic are familiar with. You have two propositions given, and the third is an absolute deduction from them. The first proposition was this: No proper business management can produce more than $8,000,000 a year from the Reading Railroad. That was the major premise. The minor premise was that in 1883 Mr. Gowen produced $11,855,000. Now, the logical conclusion was that Mr. Gowen was not a good railroad manager, and the necessities of the case added to the demand for economy required that they should economize in earnings just as they did in everything else. There must be a reduction of everything in the Reading Railroad Company, earnings included, because the fixed charges were left by Mr. Gowen were too large. Now they said, here will come up some sanguine fellow like Mr. Gowen and say how can the fixed charges be too big if the earnings are greater; we must therefore get the earnings down below the fixed charges, and they set themselves resolutely to work, with great ability, and they have produced a wonderful result. In one year they have economized earnings to the extent of $4,200,000. This last year, in addition to that saving, they will economize $1,350,000 more. Now, if I let them alone one year more, there will be no earnings left to economize, and they will at last succeed in getting the business down to the level of their own capacity.

The last mistake of which I have to complain of them to-night is that they have systematically been guilty of fouling their own nest. Who says a good word for the Reading Railroad Company? Who ever stands up to say that it is not as bad as it is painted? I do not desire to complain that in going down from Jerusalem to Jericho, it has fallen among Receivers; neither do I complain very bitterly that both the priest and the Levite have passed by on the other side. That I do not object to. We have been taught that that was human nature eighteen hundred years ago; and it is to be expected now. But what I do object to is that the fellow who

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was on the other side originally and should have staid there, has come over to our side to give us a kick, and that there is nobody to say him nay. There has been no good word said for this Company by any one. Demoralization is going on from the top to the bottom. The subordinate officers of this Company, who are honest, faithful men, are performing their labor to-day knowing that those who should defend them are permitting the finger of scorn to be pointed at them as incompetent. When I left the Company I left a force of officers, subordinates, and working men, such as I believe did not exist collected together under any other corporation in the United States. I believe the *esprit du corps* of those men at that time was such that they would have subscribed one-quarter of their wages for a year if it were necessary to save their Company. What do we see to-day. The old labor organizers are coming back into the anthracite coal region. Why? Because there is no one to oppose them and they find supporters because the men who have been asked to suspend mining in the winter and spring for two weeks this month and two weeks that month, so that they could earn higher wages in the fall, are confronted to-day with the fact that after all the suspension the price of coal is so low that there is no advance on their wages at all. When I was President we could say to the men you shall either have full work and low wages or half time and high wages, but now they are given half time, and the price of coal is kept so low that their wages are not advanced. This must lead to the inevitable result. From the top to the bottom the cancerous fungus of disorganization has commeneed, and some man with a strong hand must be at the head of the Company if there is to be anything healthy left in the body at all.

I have now pointed out a few, only a few, of the many errors of judgment, to use the most euphuistic term I can think of, which have been committed by the learned gentlemen who are managing the affairs of the Reading Railroad Company, and I now desire for a very short time to ask your kind indulgence while I speak somewhat of my own connection with the Company during the last two years.

I have already told you why I left the Company, the rea-

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sons that induced me leave it, the necessity which I thought compelled me to leave it. I made no terms for myself. I refused to permit a vote of any kind to be passed at the annual meeting at which I resigned, that would connect me with the Company, simply beeause it would be said that I was only resigning under a pretense, and using my proxies to vote myself into a position. But I will tell you this: Four days before the annual meeting Mr. Vanderbilt sent to my house and asked me to reconsider my determination to leave the Company. He said, "You know I have come into Pennsylvania and I have come here very much on your account. I am going to spend over $20,000,000 in this State. We have to contend with the Pennsylvania Railroad, and I do not like the idea of your retiring." I told Mr. Vanderbilt's representative two things: First, I am bound to go because I pledged myself to go when I was struggling with Messrs. McCalmont Brothers & Co.; second, before Mr. Vanderbilt bought a share of stock I told him that I intended to resign.

That much, therefore, I must do. But I said, "I am putting my own personal friend in my place, whom I have known for twenty-five years; I do not propose to desert the Company. I propose to stand by the Company and do anything required of me, willingly and gladly." I said, Mr. Vanderbilt has left his own Company, and put Mr. Rutter in his place. Does not William H. Vanderbilt control the New York Central Railroad Company to-day whether he is President or not? Do you not suppose that on account of the relations existing between Mr. Keim and myself that I can control the Reading just as well?" "I will do anything," I said, "to aid the enterprise; and will always be ready to defend it."

I certainly did think that the least that could have been done after I left the Company, and the new management went into power, was for them to say to me: "Mr. Gowen, will you not come and take a seat in the board? It has been your Company for fifteen years; you are responsible for the business judgment that led to bringing this property together as one comprehensive whole; now will you not come and take a seat in the board and give us the benefit of your counsel." Certainly I expected something of that kind. I was never

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once asked. At the end of the one-hundredth part of one second after I left the Company two years ago, I was just as much a stranger to anything connected with its business management as any man who is now sitting in this audience tonight, although I held at that time the proxies of about four hundred thousand shares. Within three or four weeks after I left the Company, upon being confronted with the existence of that which I did not dream could have existed, I said to the President and one of the directors "Do you think I would have put you here if I had known you were going to do this?" I was told that same week, "Mr. Gowen you should remember that you were not a very successful president of this Company, and now other people have got hold of it we are responsible, and you are not." Well, I had made a mistake. I saw it. I remembered that the Duke of Wellington had said that the man who occupies a public position and voluntarily puts himself upon the shelf may find it very difficult to take himself off again, and I was in that position. I kept my temper, however. I went to the office and said to the President, "I left this Company intending to open an office to practice law. I intended first to go to Europe to rest. Now," I said, "I will give all that up; I will give up everything I have been striving for; I will come back into the service of the Company; and I will do this; I will bring you the money to pay your floating debt; I will sell in London the bonds of the Central Railroad Company of New Jersey and pay its floating debt, and remove the control of the chancellor from the property; I will secure the construction of the East Side Railroad with the credit of the Baltimore and Ohio Railroad Company, without costing the Reading Railroad Company one cent, because Mr. John W. Garrett had always told me that if it were necessary to use the credit of his Company to get through Philadelphia we could have it to the amount required to construct the line." I said, "I will negotiate for you the bonds of the Narrow Gauge Line to Atlantic City, so that the change of the gauge and purchase of that road can be made without taking a cent out of the treasury of the Reading Railroad Company;" and I said further, "that in addition to these financial matters I would take up the question of changing the working

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of the Central Railroad of New Jersey, so as to produce the results, that we knew by some changes could be produced." "Now," I said, "I will do this; all I will ask you to do is that as I will not go to the Bar to make money you shall give, so long as I am engaged at this work, the same salary I received as president." Mr. Keim said he thought that would be right but it would have to go before the board." I then called upon one of the managers of the Company and repeated the proposition to him. I was kept waiting on the board of managers for a long time. I was told once that they desired to see me about the loan. "Very well," I said, "I am in town almost every day; any moment you send for me I will come." At last I was told that a general retainer as counsel would be given me, and that was the result of my application to be allowed to put the finances of the Company in shape. But even then I did not dream of the disaster that was impending. Why? Because I assumed that having thrown me overboard, they had made, as business men, arrangements with somebody else to secure financial assistance. About the middle of May a gentleman from New York—I will give you his name—Mr. S. N. Chittenden, a large holder of the securities of the Company—came to my house late one day, and said: "Mr. Gowen, do you know what is going on in the Reading Railroad?" "No," said I, "they do not consult me any more." "Do you know," said he, "that a meeting has been held in New York at which the finances of the Reading Railroad Company have been considered, and that it has been determined that the property shall be placed in the hands of a receiver, and that Mr. Keim has been directed to have the necessary papers prepared." Said I, "No, that cannot be." "It is true," said Mr. Chittenden. Said I, "Who told you?" "Such and such a one." "Who told him?" "Such and such a one." "Where did he get it?" "He got it from one of the persons present at the meeting." Said I, "Do you mean that four people know already that this has been done?" "Yes," said he. And I tell you here to-night that that was the first notice I had that it was determined to put the Reading Railroad into the hands of a receiver, and it came to me from a stranger who had heard it at fourth hand. I went to the office bright and

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early next morning. I called Mr. Keim, the President, into a room, and I said to him: "When I gave this property into your charge, I put my character in your keeping. Do you tell me that you are going to throw both away without even letting me know?" He said to me: "Have I not been a fool?" Said I: "Never mind the past, let us try to avert the danger." "What do you want me to do?" said he. Said I, "I want you to tell both your secretaries to come to me and show me the exact condition of both companies." I spent an hour with them, and saw exactly what had to be done. I saw the danger, and that was that they were carrying fifty thousand shares of Central New Jersey stock, and had borrowed money on it at 70. They were within two or three weeks of the 1st of June, when they had $2,000,000 to pay. They had plenty of securities in their possession. They had not taken my advice about the business in April and May, and therefore did not have large earnings, and the way to save the Company then was to prevent much money going out on account of the shares of the Central Railroad Company of New Jersey. I knew how the shares were held. I knew that the Reading Railroad Company had no right to gamble in stocks, but I knew perfectly well that it had a right to protect itself from disaster, and that I could get people interested in the Company to aid in the struggle. I went to a strong house, showed them the situation, and they required that $250,000 should be sent them as capital to protect the Company, and when I went back to the office Mr. Keim was a different man from what he was when I left him, and I could do nothing with him, nothing whatever, and for the want of that $250,000 about $2,200,000 in securities and money were paid out day after day, and when the 1st of June came the money that should have been husbanded to pay coupons was not there, and the Company went into the hands of Receivers. I said nothing; I never complained; I submitted in silence. My kind friends of the *Philadelphia Ledger* said in their paper the next day, announcing the appointment of the Receivers, that it was very gratifying for the security of the Company to find that the ex-president had not been included in the Receivership. I

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cannot say that "sufferance is the badge of all my tribe," and I must admit I had great provocation then to speak out, but I said nothing.

When a company gets into trouble, everybody should support those in charge; it does no good to make complaints, and I determined never to complain so long as there was any reasonable prospect of those in charge of the property being able to accomplish anything.

The next month I went to Saratoga and saw Mr. Vanderbilt. He said to me: "Gowen, I hear that they are not treating you well at the office, and that you are angry and you are not going to help them. Now it was as much for your sake as for anything else, that I bought my stock. I can afford to lose it, but I cannot afford to be bothered and annoyed about it, and unless you will put your shoulder to the wheel and help the Company out of its trouble, I will not have anything more to do with it." Said I: "Mr. Vanderbilt, that is just what I have been trying to do. Anything I can do to help the Company I will do if I am given an opportunity. Mr. Keim came to Saratoga that day. Two of the managers were there about the same time. I had a long interview with Mr. Keim in the presence of Mr. Vanderbilt's representative, Mr. Twombly. I recounted to him practically what I have told you to-night. I complained earnestly of the manner in which I had been treated, and of the mistakes that had been made.

When I had finished, Mr. Keim said; "I do not admit the correctness of all you say, but, suppose it was all true, what do you want me to do?" Said I: "I want you to save the Company and terminate the Receivership. You occupy the position of President, and he who fills that place must do the work. It can all be done this autumn." He said, "Will you undertake it?" "Yes," said I, "if I am properly authorized. The matter can be accomplished in October or November. You must wait till then to demonstrate your power to earn money. If you show by your August, September and October business that you earn enough this year to pay the interest on your general mortgage, on your income mortgage and on your floating debt, the reorganization of the Company is

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easy." I then agreed to undertake the task, upon condition that there should be no stoppage in the coal trade after the first day of September. I knew how much they would have to make each month for the remainder of the year in order to pay the interest on their mortgage and floating debt, and I knew perfectly well that after the shock to their credit resulting from the second Receivership, if I could show earnings enough to pay interest on the mortgages and the new money they required for floating debt, I could easily secure a proper reorganization.

I told Mr. Vanderbilt that everything was settled. To my knowledge—for he told me so—he made it his business to say to the managers who were there that they could not afford to ignore Mr. Gowen, and that he had had a full conference with me about the future of the Company. I left Saratoga, and went to Bar Harbor; and almost within a week of the time I made this bargain at Saratoga, with Mr. Keim, I received written authority from him to take charge of the plan of reorganization, and in that same letter I was notified as a matter of common news that in violation of the express condition I had made, he had consented to stop mining one week in September. There was half the interest of the general mortgage bonds for one year gone at a blow.

I came back to Philadelphia a sorrowful man. I saw Mr. Keim, and almost the first thing he said to me was, "They want us to stop another week in October." "Now," said I, "for God's sake, don't do that. You are full of orders, and the New York Companies have their cars full of coal which they cannot empty, and you are asked to stop and let them empty their cars upon your customers so that they can ship twice as much coal in three weeks as they otherwise can in five." Said he, "What can I do? They say they will break prices." "Break prices?" said I; "they want to make money as well as you do. They hope to empty their cars on your customers. They will never break prices, and if they do it cannot hurt you as much as a week's idleness. Write to them that you cannot stop now but that you will stop if the Pennsylvania Railroad Company will stop." "They will probably call a meeting. Perhaps by the time the meeting is held the

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trade will be better, or at the worst, if the Pennsylvania agrees to stop mining you might consider the question." I felt a little cheered at the fact, that he had then for the first time consulted me about a matter of business, and as I had told him what to do, and he had not said me nay, I assumed of course that he would follow my advice, or at least would confer further with me before taking any action other than that recommended by me. I went home, and at the breakfast table the next day I picked up the papers, and read the announcement that "The Reading Railroad Company had agreed with the other coal companies to stop mining one week in the month of October." There was the whole interest for one year on the general mortgage bonds gone, and that fatal stoppage was consented to against the protests of the subordinate officers in charge of the coal trade, and the New York Companies were able to exult over these subordinate officers, because they had secured the co-operation of the Reading Receivers to another week of idleness.

Now, what do these stoppages mean? I will tell you what they mean. The Reading Railroad Company under my management did away with middle men. Perhaps you have heard of that. The consequence is that the Reading Railroad Company is never blocked in the coal trade. Why? Because it deals with people who either burn coal for their own use or who retail it to others, and who have depots and coal-yards to store it, and whenever there is a dullness in the coal trade the Reading Company by telegraph can find among its customers room enough to hold coal without keeping its cars loaded. The New York Companies deal principally with middle men, who have no facilities for storing coal, and whenever there is dullness in the coal trade they get blocked, and loaded cars accumulate at the New York end of their railroads. Whenever this happens it takes some time to remove the blockade, and when they are thus blockaded they generally prefer that the Reading Railroad Company shall stop also. Everybody, even the learned counsel for the Receivers, must know that when a railroad company has all its cars loaded at one end of its line and no empty cars at the other end, it cannot do business; and everybody who has common prudence,

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and does not want to economize in net earnings, ought to know that when the Reading Railroad Company finds the New York Companies in that position it can make a great deal of money. It should make, with full work in autumn, about $2,000,000 a month, but when it stops one week it can make only $1,400,000, and two or three weeks of unnecessary idleness, at a cost of $600,000 per week, takes away enough profits to pay a year's interest on the general mortgage. This second blow was too much for me. I notified my friends in New York that I would have nothing further to do with any plan of reorganization unless I had some control over the business. I was then requested by the representative of Mr. Vanderbilt to give my views in writing as to what should be done. I prepared such a letter, a very long one, and I sent it on the ninth day of October, 1884. On the same day I sent a copy of it to Mr. Keim, because I criticised him in it, and it was proper and right that he should know it. He acknowledged its receipt a day or two afterwards. After reviewing the past as I have been doing tonight I gave my views as to the future, and expressed my willingness to take the vacant Receivership and a seat in the board. I knew perfectly well that if I once got in, that things would go my way. I had had experience of that kind before. I was told, however, that if I took such positions it would shake the confidence of Messrs. Drexel & Co.; that it would hurt the feelings of two or three other firms in Philadelphia, and that it was not wise for me to do anything to make more enemies for the Reading Railroad Company. I was told that even my enemies kindly admitted that so far as getting up and carrying out a plan of reorganization went, I knew more than anybody else. I was told that if I would take up the question of reorganization only, and give up everything else, I should have just the same control over it that Mr. Samuel J. Tilden had over the reorganization of his Western Companies; that I should be absolute master, and nobody would interfere with me. I was assured further by those who had good right to know that so far as the business management of the Company by the Receivers was concerned I need give myself no uneasiness for the future, as I already had the Receivers so frightened

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that they would do anything I wanted. At last I consented to act. I consented for the second time to take charge of the reorganization of the Company, and on the 30th day of October, 1884, these papers were handed to me. The first is a resolution of the board of managers, and reads as follows:

Resolved, That Mr. Franklin B. Gowen be retained and employed to take charge of preparing and carrying through a plan for the financial reorganization of the Company, subject to the approval of the Board of Managers, and that he have full power and authority in behalf of the Company to confer and negotiate with its Bondholders and Creditors, either through Committees of such Bondholders and Creditors or otherwise.

The second is a letter from the Receivers, which I will read:

PHILADELPHIA, October 30th, 1884.

Mr. Franklin B. Gowen,

DEAR SIR:—The Managers have communicated to us a resolution they have adopted, entrusting you with the preparation of a scheme of reorganization and the negotiations to secure its adoption. We are very glad that the Directors have taken steps in this direction, and, so far as our powers extend, we shall cordially do everything we can to assist and facilitate your efforts to that most desirable end.

Very respectfully,

GEORGE DEB. KEIM,
S. A. CALDWELL,
Receivers.

So there, gentlemen, I was again employed to reconstruct. They gave me a retaining fee of $5000, and were to pay me $2500 a month until the work was completed, and if they had continued my employment that money would have produced better results than any the Receivers have paid out for legal advice from the inception of their Receivership until the present moment. I spent some time collecting all the data I wanted and then devoted about three weeks work to the details, and finally perfected and put into print a complete plan of reorganization. I knew that it was hopeless to expect to extricate the Company from difficulty without money; I knew how and in what manner the money could be had. The Company had $15,000,000 of excellent securities. Mr. Joseph Wharton, I am told, at his meeting to-day, admitted that as a fact. Well, I knew if they had $15,000,000 securities that

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were bearing interest they were at least sufficient security wherewith to raise $10,000,000. Everybody who has looked into the Reading Railroad affairs has admitted that there is sufficient security for $10,000,000. So far so good. Then I knew that the Baltimore and Ohio Railroad Company was about to make a contract with the Reading Railroad Company, and that they would be willing to put such contract into any form that would help the credit of the Reading Railroad Company. I knew that fifteen years ago the Baltimore and Ohio traffic over the Camden and Amboy Railroad amounted to about $450,000 a year. The lowest estimate that anybody could reasonably put upon it now would be, that it would amount to $750,000 per annum to the Reading Railroad Company. Mr. Garrett believes, and I believe, that in a few years this traffic would produce $2,000,000 per annum. Then what had I to raise money on? I had securities of $15,000,000 producing about $700,000 a year, and that was good enough for $10,000,000; and I could have drawn the contract with the Baltimore and Ohio Railroad Company, so that the latter would agree to pay into a trust company, for the protection of the new Reading issues, the annual sum due for the use of the Reading Railroad between Philadelphia and New York. Any financier, no matter how conservative he may be, will know that if you have the name of the Baltimore and Ohio Railroad Company pledged to paying every year say $750,000 into a trust company, you can borrow from ten to fifteen million dollars upon the security of that pledge without any trouble at all. Everybody knows that. There could have been no better security, according to the estimate in which the credit of railway corporations is ranked on the stock exchange, than the obligations of the Baltimore and Ohio Railroad Company.

I knew further that I could have drawn that contract both as a lawyer and a business man, for I do claim to have a little knowledge of both branches of learning, although some of my conservative friends say I know nothing at all about business. I do know that I could have drawn that contract in such a way that the $700,000 or $750,000, or whatever the annual payment was, would have been deposited for the security of

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the loan in each year just as certainly as the United States Government pays the interest upon the public debt. Then the first step in reorganization was accomplished, because if we had the money to pay off everything that threatened danger and the bondholders would not accept fair terms, we could bring them in by foreclosure, but the force would be used in such a manner that nobody would lose his rights in the Company, as a penalty for non-payment of forced assessments. I knew that I was undertaking the task with the entire approval of Mr. Vanderbilt, the largest shareholder in the Company, and did not therefore dream that I was to be displaced; but to my amazement the moment it was known that Mr. Gowen had perfected a plan that would secure money and save the Company, a power more potent in the affairs of the corporation than was Mr. Vanderbilt himself made itself felt—and Mr. Gowen was displaced. Remember, gentlemen, that if Mr. Gowen had saved the Company it would not have been good business form; for men, great in their own estimation, and able newspaper writers had issued the irresistible fiat that the Reading Railroad Company could not be saved by mortal man.

My friend, Mr. Wharton Barker, about whom I desire to speak very kindly, came to the fore and led the movement that succeeded in displacing me. I have said something in my circular about him and I do not care to say very much more. I have sometimes made mistakes in criticising people too harshly, and I prefer to-night to speak kindly of everybody, because a great deal of hard feeling is often engendered in contests such as these, and it is far better, I think, wherever one can, to preserve his good temper and good humor, and I do think that Mr. Wharton Barker is a subject about which we can all laugh. I think it probable that if we had Drexel & Co here, that, much as they dislike me, they would sit down, on the other side of the table of course, and laugh with us all about Mr. Barker. And if there is any one subject about which myself and my enemies can agree even to laugh, we have made the first step towards getting the Company out of trouble, and if that subject is Mr. Wharton Barker, he will deserve all the credit for the result, and therefore his intervention in the affairs of the Corporation will not have been in vain.

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Well, the matter was taken out of my hands and turned over to a committee. I helped the Committee so far as they would permit me. I gave them my plan, and when they saw that it proposed to raise $20,000,000, they were amazed and struck that portion right out without a dissenting voice. They adopted the rest with a few exceptions, although it emanated from Mr. Gowen, because, after striking out the portion about raising money, the plan was perfectly harmless. I aided them to the best of my ability. I used to go to the houses of some of them at night, so that people should not see me going there, to tell them how to do it. I was requested, and I consented to show them how to write that portion of their report which finally disposed of Mr. Gowen's foolish idea that money had to be secured in order to accomplish reconstruction.

I had a very interesting conversation about this time with Mr. Twombly, the representative of Mr. Vanderbilt. I had advertised for proxies in November, and had received about two hundred and eleven thousand votes. Mr. Wharton Barker, as Secretary of the Committee, had also advertised for proxies, and he had received so many that if he had had three hundred more, I think he would have been able to control about seven thousand votes. Mr. Vanderbilt could have voted at that time, I think, about one hundred and thirty-five thousand shares; I had two hundred and eleven thousand, which gave me control. But the Committee were not satisfied with the aid I rendered them in getting up a plan, and they desired me further to show them how to elect a board of managers, and I even consented to do that for them. I gave Mr. Wharton Barker a letter saying that I would vote my proxies for the ticket nominated by his Committee. Before I did that, however, I had said to Mr. Twombly: "Now, Mr. Twombly, I think you should do one of two things: you should come to Philadelphia and say you come here as the representative of the largest shareholder, and that you desire to name a board, and take charge of the Company, with a view of extricating it from financial difficulty, and that you will take the responsibility of doing so upon your own shoulders. If you say that, I will vote every proxy I have for any board you may name, no matter who they may be, be-

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cause I know that Mr. Vanderbilt never took charge of a company to wreck it, and has always interposed to save. Or," said I, "if you do not do that, then go back to New York, and let me look after the Company and I will become responsible for the result." Mr. Twombly replied that I knew as well as he did that Mr. Vanderbilt would not vote against me, and that he would not take upon himself the responsibility of managing the affairs of the Reading Railroad Company, but that if I took the responsibility of the management of the Company upon myself I would be opposed and embarrassed by those who thought I was an obstacle to success, and if I did not succeed they would say to me: "If you had only let us alone we could have saved the Company." He advised me to give them a chance, because if they did save the property, that was all I wanted, and if they did not save it they could no longer object to my intervention. I determined, therefore, to vote my proxies as requested by the Committee, and I did so. In about three months Mr. Twombly said to me one day: "Now, Mr. Gowen, I think the time has come now for you to go ahead in your own way." I said to him, "You know what that means; I will turn the whole party out if I go ahead." He said, "I don't care what you do; only give us notice when you are ready." "No," said I, "I will give them the full year, as I said I would. The adjustment of differences between the Whelen and Bartol committees removes all danger of immediate foreclosure. I am going to Europe for a few months and I will give them the full year." That full year, gentlemen, will expire on the second Monday of January next, and at that time solemn judgment of ouster will be rendered against them.

At the last annual meeting I did not complain; I abstained from doing anything that could hinder or obstruct those who were empowered to deal with the question of reconstruction. I determined to give them an ample opportunity to save the Company, and to aid them by any means in my power. I had some strange experiences afterwards with them. One day I remember there was a meeting of the new managers at the office of Barker Brothers & Co., and I was asked to meet them, as there was a subject-matter coming up for discussion

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which nobody but myself knew anything about, and whenever that character of business was to be transacted it was thought prudent to have me present. The meeting of managers took place in an inner room, and when the board convened I was requested to leave the room until they were ready for me. I went out and sat near Barker Brothers' clerks, messengers, and telegraph boys, and when they had discussed matters which they thought they knew something about and did not desire me to hear, they called me in, and when I had given them a moderate amount of instruction in railway management I was told to withdraw. All of this was very amusing, and thus I amused myself with them for three or four months, until I could stand it no longer. I was trying during all this time to prevent sales of collaterals for the floating debt, and that was the only reason I remained at the general office, and up to the time I left there never was a sale of collaterals threatened, of which I had knowledge, that I did not stop except one, and in that case the creditor, whom I knew very well, and who had been most unjustly treated, returned the collaterals which he had bought, and took a new note for the debt. When I found, however, that people were being directed to sell their securities by the Receivers themselves and by members of the board of directors, I left the office. My power for good was gone. It is true that they always professed a desire to have my services, but they would reserve the right to direct that those services should be rendered according to their views of railway management. It was very much as if their house was on fire and they had said to me, "Mr. Gowen, you are somewhat responsible for this conflagration, and you should help to put it out." Instantly I would reply, "Let us put it out first and talk about the origin of the fire afterwards. I know all about the building; I know where the combustible material is stored; I know where the dangerous air-passages are. Give me the hose, and I will put it out." "Oh, that is not according to conservative business principles," they would say. "We are the managers. We must do the work, and you must teach us how." "Alas!" I would exclaim, "by the time you learn how, the house will be burned down."

Well, then they would have a meeting about it, refer the

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question to committees and take opinion of counsel, and the result would be a resolution like this :—

Resolved :—That, pending the present conflagration, the nozzle of the hose be intrusted to the custody of Mr. Gowen, *provided* the managers and Receivers keep control over the supply of water.

I do not know who owns the patent for that class of resolution, but I think the form was adopted so that if the fire was not put out they could say, "You saw Mr. Gowen; he took the hose; he was responsible for everything; he rushed in here and took everything out of our hands;" but if the fire was put out they would be able to bring proof that Mr. Gowen could not have accomplished anything but for the liberal manner in which they supplied him with water.

A very curious thing occurred about this time in connection with the legal business of the Company. My brother, who had been general counsel of the Company for over twenty years, long before I had anything to do with it, as many of you know, was taken suddenly ill last winter. During his illness the following resolution was passed :—

PHILADELPHIA, Wednesday, February 11th, 1885.

On motion of Mr. Wanamaker, seconded by Mr. Comly, it was

Resolved : That during the illness of James E. Gowen, Esq., Franklin B. Gowen, Esq., be instructed, under the resolution of October 28th, 1884, to represent the Philadelphia and Reading Railroad Company as counsel before the United States Circuit Court, and in all questions growing out of the Receivership.

Five days after my brother died. Immediately the other lawyers took charge of legal business for the Company, and when some very important litigation involving foreclosure and the continuance of the relations with the Central Railroad Company of New Jersey was pending, I wrote the following letter :—

NO. 227 SOUTH FOURTH STREET,
PHILADELPHIA, March 24th, 1885.

To the President and Board of Managers of The Philadelphia and Reading Railroad Company.

GENTLEMEN :—On the 11th day of February last I was authorized by a resolution of your Board to represent the Company before the United States Circuit Court and in all questions growing out of the Receivership. This authority, however, was by its terms to be exercised

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only during the illness of my brother, the late James E. Gowen, who died within five days thereafter. If it be the desire of the Company that I should continue to represent it, I shall be very glad to do so under the following conditions, viz. :—

First.—That I shall have control as counsel for the Company of the litigation referred to in the original resolution, and in any other suit or suits or other proceedings which may be instituted by any bondholder or trustee or trustees of any mortgage against the Company looking to foreclosure.

Second.—That I may advocate on behalf of the Company the payment by the Receivers to the Central Railroad Company of New Jersey on account of rent of all sums required by the latter to meet its fixed charges, and any further sum or sums which may be either earned upon the leased line or agreed to be paid by your Company in pursuance of any amicable modification of the present lease made between your Board of Managers and the Central Railroad Company of New Jersey.

Third.—That I am not to receive any pecuniary compensation whatever for my services.

Very respectfully,

FRANKLIN B. GOWEN.

This was on the 24th of March, and the suits were coming up within a few days. It happened very oddly that I was promptly subpœnaed as a witness. Of course, I could not act as counsel and be a witness in the same suit. That ended me as counsel. Nine days afterward I received this communication :—

PHILADELPHIA, April 2d, 1885.

Franklin B. Gowen, Esq., Attorney-at-Law,
Room 43, Forrest Building, Philada.

DEAR SIR :—At a meeting of the Board of Managers of this Company held at their office this day the following resolution was adopted :—

"On motion of Mr. Wharton, duly seconded by Mr. Comly, it was resolved, That Franklin B. Gowen, Esq., be requested to act for this Company as Counsel in conjunction with the General Solicitor, until the Board is able to further mature its plans for permanent reorganization."

Very respectfully,

ALBERT FOSTER,
Secretary.

Well, gentlemen, if I was to be called in as a doctor to attend the sick man, I did not intend to have undertakers for my colleagues, and so ended my relations with the Reading Railroad Company as counsel. Since then I have had nothing to do for them, until to-night, and I think I am doing

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them more service to-night than anybody else connected with the Company has done for them since I left the office of President of the corporation. Remember that I have been charged with managing the Company all the time. But I tell you that from the time I left the Presidency until I heard they were going into the hands of the Receivers, I never once met the board of managers in session, nor was I ever asked to meet them. And since the date of the Receivership, last June a year ago, though the Receivers held sessions two or three times every week and for months in the room adjoining the one I occupied, never once in all that time was I asked to meet the Receivers in consultation about anything connected with the Company, and the only two times on which I appeared before them were—first, in consequence of a resolution of the board of managers to try to straighten out the Central Railroad of New Jersey matters; and, second, to read and explain a contract I had drawn for the business of the Baltimore and Ohio Railroad Company. Those were the only two occasions.

Often, as I sat in my adjoining room while these meetings were going on, I have wondered what they were doing, under what leadership they were acting, and what the character of the discussion could possibly be. There were two Receivers and three counsel. Mr. Kaercher represented Mr. Keim. Mr. Dickson was counsel for Mr. Caldwell; Mr. Ashhurst was counsel for the vacancy, and I think Mr. Ashhurst's client rendered more service to the Company than any of the others. I am quite sure that Mr. Ashhurst himself, as counsel, did far more good than any of the others, for I want to do him the credit of saying very sincerely that I believe he never moved his hand except to try to do good for the Company. But who controlled those meetings? Who dominated those solemn conclaves? Who can tell? I do not know. It seems to me that Mr. Kaercher controlled Mr. Keim; that Mr. Caldwell controlled Mr. Kaercher; that Mr. Dickson controlled Mr. Caldwell; that Mr. Bullitt controlled Mr. Dickson; that Messrs. Drexel & Co. controlled Mr. Bullitt; that the Pennsylvania Railroad controlled Messrs. Drexel & Co.; and I am sorely afraid that sometimes, in its dealings with the Reading

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Railroad Company, the Pennsylvania Railroad Company, to use the old phraseology of criminal pleading, with which I used to be very familiar about twenty years ago, was moved and instigated by the devil, and I am quite certain it did not have the fear of God before its eyes.

You may be sure that everything was conducted with great legal ability. For instance, upon the question whether it was prudent to construct the extravagant cars Mr. Gowen had ordered for the coal trade, I have supposed that a discussion arose as to what kind of an intermediate estate was necessary to support a contingent remainder or a vested remainder—and when such legal question was once settled by counsel the Receivers' order was given to stop the construction of cars. Again, upon the question of whether the coal trade should be stopped to please one of the New York Companies. I have no doubt that a learned discussion arose among counsel as to whether the word "children" in a devise, under the rule in Shelly's case, was a word of limitation, and when that intricate problem was understood by the Receivers, orders were at once given to stop the coal trade. Sometime ago one of the steamers of the Company was sunk. Of course the next hour by telegraph the wrecking company should have been ordered to raise the vessel, because what the Company wanted the steamer for, was not so much for its earnings, *per se*, but for the additional amount of coal it would enable the Railroad Company to carry. The matter was delayed for one month; they discussed it; they referred it to the managers, and the board referred it to the Receivers; the Receivers referred it to the counsel, and the counsel consulted together as to whether the court would approve of such a thing; but after long delay it was finally determined that the vessel should be saved, and notice was given to the wrecking company, who said, "Why, gentlemen, it is now too late." I am told that a very interesting question of maritime law discussed by counsel on that occasion caused a great deal of the delay, and that was whether during a storm upon the canal the captain of a canal boat had a right to order in a reef of the stovepipe without the consent of the cook. That interesting question of admiralty law being finally resolved to the satisfaction of counsel, the

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steamer was directed to be raised, just twenty-eight days after it was too late to save it.

Again, you have heard very much about Mr. Bartol and his committee of general mortgage bondholders. Mr. Bartol is a gentleman who, I am told, has complained very bitterly that Mr. Gowen was controlling the affairs of the Reading Railroad Company. Indeed, one day the newspapers reported him as saying that if people wanted to save anything at all out of the Reading Railroad they had better act promptly, as Mr. Gowen had as much to do with the Company as ever. I should like to read a short letter from Mr. Bartol. I ought to have known Mr. Bartol, but I cannot recall that, until the receipt of this letter, I ever knew or heard of him although I knew there was a sugar firm of that name, but I had no personal knowledge of any of the partners. Here is the letter :—

139 South Front Street,
Philadelphia, December 15th, 1884.

Mr. Franklin B. Gowen,

Dear Sir :—As the representative and owner of nearly $100,000 of Reading general mortgage bonds, I have seen several other large holders with a view to calling a meeting of the holders of such securities for the purpose of securing a concert of action to protect our interests, particularly in reference to the continued default in the payment to the sinking fund. It has been suggested, and with such suggestion I fully concur, that as we do not desire in any way to hamper you in your proposed plan to relieve the Company, provided our interests are fully protected, that it might be wise to see you before we take any definite action ; and the object of this is to ask, with that object in view, if you will appoint a meeting with me to talk over the matter.

Yours truly,
H. W. BARTOL.

To this letter I replied as follows :—

No. 227 South Fourth Street,
Philadelphia, December 17th, 1884.

H. W. Bartol, Esq., 139 South Front Street,

My Dear Sir :—I have to acknowledge receipt of your favor of 15th inst. I do not in any manner represent the Philadelphia and Reading Railroad Company, except to the extent of having undertaken to prepare a plan for such financial reorganization as to put an end to the present uncertain condition of their affairs. It seems to me, therefore,

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proper that your communication upon the subject of the sinking fund of the general mortgage bonds should be made directly either to the Company or to the Receivers of the Company. If you should be in the neighborhood of the office at any time, it would give me pleasure to listen to anything you may have to say, provided it is with the understanding that you would be talking to one who has no official right to deal with the subject.

Very sincerely yours,

F. B. GOWEN.

Mr. Bartol called to see me and I had a very pleasant conversation with him, and subsequently when his committee met the managers I was present. Then he rushes out and tells the newspapers that he is surprised that Mr. Gowen has just as much to do with the concern as ever, though it was he who by letter requested Mr. Gowen to meet him and consult with him. So you see Mr. Gowen has been made the scapegoat for the sins of a great many other people, and he does not propose any longer to undergo this vicarious punishment for the iniquities of others.

Before I went to Europe last May the Whelen and Bartol committees had perfected their joint plan of reorganization, and when I had seen it I wrote as follows about it to one of the managers of the Company:—

PHILADELPHIA, May 4th, 1885.

DEAR SIR:—I learn from the newspapers that the managers are to consider and take action upon the recommendation of the Whelen and Bartol committees to-day, and I, therefore, write to repeat what I said to you verbally the other day, viz:—

First.—The plan of raising money is defective, because all the good securities go to the first loan of ten millions of dollars, leaving nothing sufficient to raise the second portion, which is more important to raise than the first. The shareholders and junior bondholders should not be asked to subscribe to a loan which is not well secured, when one that can be well secured can be offered them. Every one would rather pay $1000 for a good loan than $500 for a bad one, and it will be much easier to raise $20,000,000 from the shareholders and bondholders upon all the collaterals, than to secure $10,000,000 upon such as are left after putting aside all the best to secure a prior loan of $10,000,000. Again, the attempt to obtain subscriptions to an unsecured loan by assessments, without the power to enforce assessments, is objectionable in this, that all the injury resulting from assessing shares will be inflicted without the benefit that would result from an assessment which could be legally enforced.

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Hence, where there is no power to make assessments, the attempt should not be made, and the loans required, instead of being *enforced*, should be put into such shape and accompanied with such conditions as to tempt voluntary contributions by reason of the benefits which those who subscribe would have over those who do not.

I consider the above objection as very serious. There are others not so serious, but deserving some consideration, viz.:—

1. The assessment of shares and bonds to pay trustees should be omitted. The Company has ample power to pay the trustees, and whatever they are paid had better come out of the treasury of the Company, in which event all shareholders contribute; whereas an attempt to assess, without power to enforce payment, throws all the charges upon a few willing contributors.

2. The cutting off three consecutive coupons of the general mortgage bonds, instead of three alternate ones, will be considered objectionable by many. If a bondholder gets three per cent. in cash each year, he will be generous in dealing with the other three per cent.; but, if he gets nothing to live on for eighteen months, he will at least *get* angry.

3. The provision which prohibits pledging the stock of the Coal and Iron Company in future may lead to the very injury it was designed to prevent. If the Company ever gets into trouble again, it will be compelled to hold this stock subject to attachment and sale by hostile creditors, instead of putting it out of danger by pledging it with a friendly one.

4. The Reorganization Trustees should not have the power to decide against the reorganization plan "*on or before*" May 1st; if so, they might decide to-morrow.

5. The managers should not put themselves on record as agreeing to unite with bondholders to foreclose the property they are elected to protect. The managers are the direct representatives of the shareholders to whom their allegiance is due, and before uniting with the creditors of their principals to foreclose the property intrusted to their care, they should, at least, call those principals together to consider and take action upon the situation.

Very Truly Yours,

FRANKLIN B. GOWEN.

I now come, gentlemen, to my absence in Europe during the last few months, and I want to take the liberty of making an explanation about my silence, when the troubles of the South Pennsylvania Railroad Company were impending. I was solicited to return home, and I did not—Why? Because I knew perfectly well that of the two companies the Reading Railroad Company was the more important to save, because if the Reading Railroad was not saved, what was the use of building the South Pennsylvania Railroad? Everybody will admit that. Everybody will admit that it would have been

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folly to go on and build the South Pennsylvania Railroad if, by the time it was constructed, the Pennsylvania Railroad Company owned the Reading Railroad. I knew, therefore, perfectly well that if I came home and by any influence or control of mine, or by litigation or other effort, I had succeeded in preventing the transfer of the majority interest in the South Pennsylvania Railroad Company to the Pennsylvania Railroad Company, that the Pennsylvania Railroad Company's friends would own enough Reading Railroad stock before the books were closed in October for the election, to prevent my success in January next, and I bided my time and held my peace although I was sorely tempted to cry out. When I did come back to America the voting list of the Reading Railroad Company was made up. Fortunately the control of the shares to-day belongs to no one man or to no one power. It belongs to the great body of the shareholders, and I represent them, and when the Reading Railroad Company is saved, the South Pennsylvania Railroad can be constructed; and, if anything interferes with its construction then much more quickly than it could have been constructed, a line between Pittsburg and Harrisburg via the Baltimore and Ohio Railroad Company's Connellsville route will be opened, and the Reading Railroad Company will at last have communication with Pittsburg as it should have, the Pennsylvania Railroad Company, and all the powers of darkness to the contrary notwithstanding.

I now call your attention to the various plans of reorganization which, after so many dreary months of incubation, have been hatched by the several committees. There are three of them :—

First. We will take the Reorganization Trustees' plan. I need not go into its details. There are two things which kill it, as they say, from the word "go." One is the scheme to obtain $7,000,000 from the shareholders as a present without giving anything for it. The other is, that instead of reduced fixed charges on issues in respect of the general mortgage, it is proposed to make the fixed and income charges upon such issues exactly the same as now. That kills it. That is no way to reorganize a company in a cheap money market. The way to reorganize the company is to issue a new loan at

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four or four and a half per cent. to take the place of the general mortgage, and then give to the general mortgage creditors the option of taking their money in full or of taking the new bond. But to turn the general mortgage into two classes of securities that require to be paid annually, before any junior creditor is reached at all, just the same amount of money that is paid now, is digging the grave of the Reading Railroad Company. It may be a business reorganization, as such is understood by gentlemen who do not like Mr. Gowen's visionary plans; but the real business way of reorganizing is to take advantage of the low rates of money by paying off a six per cent. obligation with the proceeds of a four or a four and a half per cent. issue.

Mr. John A. Wright also has a plan. The general mortgage creditors shall be saved to a certain amount, and then, what? Everybody else, no matter who, shall take shares, and Mr. Wright thinks all will take shares for their present debts, the principal of many of which is well secured by mortgages. Why? Because he knows he can earn a half per cent. per annum upon the new shares. Mr. Wright's plan will not do. Mr. Wright's one-half per cent. per annum of income will not tempt people to surrender a good mortgage.

The third plan is Mr. Wharton's, which came out to-day. Mr. Wharton's plan will not do at all. Why? Because it is impracticable without the consent of the general mortgage bondholders, and the general mortgage bondholders will never consent that the property shall be sold and their mortgage divested, so that the new mortgage for $10,000,000 shall be put ahead of them. The general mortgage creditors will not submit to that. When I heard of that plan this evening—and I heard of it very late, as I was coming here—and found that Mr. Joseph Wharton was standing sponsor to Mr. Wharton Barker's plan, and remembering the light and airy manner in which Mr. Wharton Barker started out a year ago to save everybody in the Reading Railroad Company, provided Mr. Gowen was excluded from any control, I was reminded of a young gentleman who resembled Mr. Wharton Barker very much, only instead of being a financier he was educated as a physician. When he came home

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from the university thinking very much as Mr. Barker thinks that what he did not know was not worth knowing—he determined, as he said, not to resort to a general practice, but to set up as a specialist, because he found that specialists always made money. His father said, "a specialist must have great experience." "Ah, yes," he said, "but I have genius, and I shall secure practice. I shall make a specialty of the diseases of women and children, because parents and husbands pay well, and I shall have a very lucrative practice." His first case was that of a mother and child taken suddenly ill, and he entered into the case with high hopes of making a great reputation. At the end of a long night of anxious waiting upon the sick-bed he returned home, and his father said to him, "Well, John, how are you getting along with the great case?" "Oh, splendidly," replied he, "the mother and child are both dead, but I think I can save the old man." Mr. Wharton Barker started out to save the shareholders. Above the shareholders come the debenture bonds, and above the debenture bonds come the second series fives, and above the second series fives come the first series fives, and above them, in the order of priority, come the convertible adjustment scrip and the income mortgage bonds, and next above them come the general mortgage bonds; and after the lapse of one year, Mr. Wharton Barker comes up smiling and says he is getting along splendidly. "The shareholders are absolutely gone; the debenture bonds are worthless; the second series fives nothing can be done for; the first series fives will have to go by the board the convertible adjustment scrip nobody need bother about; the income mortgage bonds are not worth taking into consideration; the general mortgage bonds will have to be foreclosed, but I can save the improvement mortgage."

Gentlemen, they cannot carry out such a plan. Why? Because the general mortgage bondholders will never consent that the principal of their debt, which at all events is well secured by a mortgage upon valuable property, shall be jeopardized by having $10,000,000 of new mortgage put ahead of it. Mr. Wharton Barker says there are $8,000,000 of Receivers' certificates. There are only $3,000,000 of Receivers' certificates, and three or four millions due every month by the Re-

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ceivers for wages, rents, and current expenses. Every month there is about that amount of money coming in, but all the Receivers' obligations can be paid without asking the general mortgage bondholders to permit a new lien of $10,000,000 to take precedence of their claim. If there is any one thing a mortgage creditor dislikes, it is to give his consent to another mortgage being placed ahead of his own, for the purpose of strengthening his security. Hence they are all reckoning without their host when they hope to secure the assistance of the general mortgage creditors, to enable Mr. Wharton Barker to earn his commissions on the new mortgage for ten millions, which it is proposed shall take precedence of the general mortgage debt. And here, if you will permit it, I will tell you another story. I do not like to tell stories in a business meeting, but this one is very *à propos*. A friend of mine, who is very fond of horses, asked me one day if I knew how his attention was first directed to the great value and importance of horses. I said, "No." "Well," he replied, "when I was a boy I went one day to the circus and was very much pleased with all I saw, but thought that I, without experience, could perform just as well as the trained actors"—very much like Mr. Wharton Barker—"and I determined to have a circus of my own. So, on a vacant lot near my father's house, I had the ring staked out, and we got a man to haul saw-dust for us, and we got a lot of sheets and made a tent, and as I was to be the clown, I had my clown's dress made and it took nearly a half-year's spending money; and then I had a ring-master, with a swallow-tailed coat and a high hat, and I had acrobats and tumblers, and when everything was ready I invited my friends to come to the circus, and we all assembled one afternoon expecting a jolly time. Among the boys who came was one of those visionary and sanguine fellows who are always looking ahead, and who cried out, 'Where are your horses? How can you have a circus without horses?' Oh," said I, "I forgot all about them." And so Mr. Wharton Barker and Mr. Joseph Wharton, in making their arrangement to borrow $10,000,000 ahead of the general mortgage, have forgotten to bring the general mortgage creditors with them, and until they get them their circus will be a lamentable failure.

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And now, gentlemen, let me tell you something about the manner in which this property should be dealt with. Let me call your attention to certain fixed business principles. The first is this: When a company gets into trouble, it is the duty of the shareholders, through their managers, to provide the means of extricating it from trouble, and the penalty that they pay for not doing so is that they lose the control over their property. The shareholders of the Reading Railroad Company have had no opportunity of doing anything yet. Why? Because the bondholders' committee named a ticket for them and undertook to save the property, and the shareholders who last year sent their proxies to Mr. Gowen, were requested to vote for that ticket upon the implied covenant by the bondholders that they would manage their property better than the shareholders could themselves.

Now, therefore, the first thing to do is to place the management of the property back into the hands of the shareholders, then to say to them, "You shall have three months' or four months' or six months' time to save your property; select your board of managers; raise the money to pay your debts, we will aid you by concessions in the fixed charges. If you fail, it will then be time enough for us to take the matter in our own hands." But before the bondholders attempt to foreclose they should at least give the shareholders the opportunity of raising money to save their own property from destruction.

There is another well-known business method to which I would like to advert, although I am afraid it will be considered very heterodox by the conservative financiers who differ with me. It is a very simple plan and a very old-fashioned plan. It is a plan that has never been known to fail to extricate any company that has got into trouble, and though it has often been successfully applied, and is generally the first plan thought of, not one of these gentlemen has ever thought of it, though it is by far the simplest plan of all. Every business man should have thought of it, but the trouble is they have been conducting the business of the Receivership under the cloud of so much legal advice that every plan suggested was instantly condemned, unless it was endorsed in the *Institutes* of Justinian, or had received the awful sanction of *Little-*

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ton or of Coke. This simple and efficacious plan is to earn enough money to pay the fixed charges. Nobody has ever thought of that! Nobody, from the commencement of these troubles, has ever suggested that! It has been forgotten altogether.

Just to show you how Philadelphia, this good old-fashioned Philadelphia, is joined to its idols, let me mention that the other day I said to a friend of mine, for whom I have a very great respect, "My dear fellow, this matter of reorganization is not difficult; the Company should earn at least $15,000,000 a year." Said he, "Don't say that at your meeting, for the world! It will kill you, they will not believe it." Why, gentleman, three years ago the Company—that is, the Reading and Central New Jersey united—earned $17,772,000 net; four years ago they earned $15,637,000 net; five years ago they earned $14,806,000 net. The average earnings for those three years, after paying all expenses and taxes and legal fees, and everything else except interest, were $16,072,000 per annum. Why can it not be done again? What the property earned for three years in succession, when the traffic was not as great as it is now, can certainly be earned again. I can point out and lay my finger upon the causes that account for the great reduction in earnings since I left the Company. In 1883 the earnings were $17,772,000. I left the Company. In 1884 what did they earn? $13,396,000, a decrease in net earnings of about twenty-five per cent. Why was it? How can it be accounted for? What other company ever heard of, except during a strike or in a great panic, ever suffered such a decrease of net earnings? Remember that in that very year the gross receipts from merchandise and passenger traffic fell off only four per cent. In a year of great depression every company will lose something, and a loss of four per cent. of gross receipts derived from merchandise and passenger traffic, equal say to one and a half per cent. of net earnings from those sources, was not a great loss. But the Company lost twenty-five per cent. of its net profits, and ninety-five per cent. of that loss was in the coal traffic. If that loss was due to the general condition of business or to the dullness of the coal trade those who man-

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aged the Reading Railroad were not to blame. But let us examine, in order to discover whether it was due to either of these causes.

Let us pick out the two companies whose traffic is more nearly like that of the Reading than any others—the Lehigh Valley Railroad Company, and the Delaware, Lackawanna and Western Railroad Company. Each has a large coal trade, and each has a general merchandise and passenger traffic. The Lehigh Valley Railroad Company lost of net profits that year not quite four per cent. The Delaware, Lackawanna and Western Railroad Company lost less than four per cent. These are two companies whose traffic more nearly resembles that of the Reading Railroad that any others, and in 1884 each lost but four per cent. of net earnings as compared with 1883, and the Reading Railroad Company lost twenty-five per cent. of net profits. Why? Because it turned its business over to its rivals by stopping mining for three weeks when there was no necessity for doing so, which alone involved a loss of $2,000,000, as they earned in the three months in which they stopped those three weeks, about $2,000,000 less than they earned in the same three months of the year before, when they worked full time. And the remainder of the loss was due to the fact that by refusing to construct the cars I had ordered, they did not have cars enough to secure their fair proportion of the coal tonnage in competition with their rivals when there was no suspension of mining. The present year they will only earn about $12,000,000, as against over $17,000,000 in 1883, a loss of over $5,000,000.

Let me show you how their business is going on this year. Take the city of Philadelphia. In 1883 the Reading Railroad did $70\frac{35}{100}$ per cent. of the coal trade of Philadelphia; all the other companies put together did $29\frac{65}{100}$ per cent. What was it last year? Last year the Reading did sixty-seven and the others did thirty-two per cent. This year they have done about fifty-seven and the others about forty-two per cent. The whole loss of business and of profits by the Reading Railroad Company in the last two years is due to the fact that they have given the coal trade away to their competitors, and have lowered prices so much that they have made no

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money. They are getting from forty to fifty cents per ton less for coal and coal transportation than they did under Mr. Gowen's sanguine and visionary management, and that accounts for the whole difference in earnings. What is the use of investigating small matters? Why have so many estimable and economical gentlemen been devoting their valuable time for so many months to repairing the leaks in the spigot when the bunghole has been open all the time? What is the use of puzzling one's brains about this or that trifle? What is the use of surmising that Mr. Gowen was extravagant in the purchase of coal lands, or complaining that he did this or did not do that? We have here a fixed fact about which there is no dispute. They are getting nearly fifty cents less for coal and coal transportation than Mr. Gowen used to get, and yet the demand for coal is so great that they cannot fill their orders. They move over twelve million tons, and the bunghole leak accounts for the whole missing $5,000,000. Mr. Joseph Wharton, Mr. Wharton Barker, the Reorganization Trustees, Mr. John A. Wright, Mr. Bartol, and all the Reconstructionists, I think, will admit that if the Reading Railroad Company could make $17,000,000 a year there would be no trouble about reorganization, and perhaps little necessity for it except to get rid of the Receivers. What has been done, can be done again. Why have the Receivers not done it? Simply because they do not do what they might have done—get a fair price for their coal product. Perhaps they are worried about the newspapers. I know that one newspaper in Philadelphia opened its batteries upon the Company on account of the high price of coal, and perhaps they thought that good legal form required them to consult the delicate sensibilities of the newspaper; but this thing I can say to them is an axiom of railroad management—that the managers of a railroad company who secure the approval of their shareholders can bear, with an almost sublime equanimity, the animadversions of the newspapers, while those who are turned out of office by the votes of the shareholders will derive but cold comfort from the applause of the newspapers. I do think it is high time that somebody got into the management of the Reading Railroad Company that is not afraid of the newspapers; somebody

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like myself who has had so much abuse from them that he would feel as if his dearest friends had deserted him if the newspapers did not continue to shower upon him the same lavish outpouring of criticism which he has had to undergo for the last three or four years.

Another matter, gentlemen, of great importance in reconstruction is this: The Reading Railroad cannot be saved as a local coal road; the Reading Railroad cannot be saved if you cut off the Central Railroad of New Jersey, if you cut off the Beech Creek road, if you cut off the South Pennsylvania road, and if you cut off the Baltimore and Ohio road. If you bring the Reading Railroad Company down to the level of a local coal road, so that it shall not be able to compete with the Pennsylvania Railroad Company, you will enlist no capital to help you out of your troubles; and without the aid of the capital which connections with and affiliations to other interests will command for you, you will never get out of your trouble at all. Restore the Reading Railroad Company to what it was when I left it; let it have the Central Railroad of New Jersey to connect it with New York; let it have the South Pennsylvania line to connect it with Pittsburg and the great West; let it have the Baltimore and Ohio connection with Baltimore, Washington, and the South; let it have the Beech Creek, Clearfield and South Western Pennsylvania Railroad so that it can reach the coal fields of Central Pennsylvania; and then you have some foundation to build upon—then you have something upon which you can get money. Why, gentlemen, I am told there is $10,000,000 waiting in the county of Allegheny and the city of Pittsburg to construct the road to connect Pittsburg with the Reading Railroad the moment it is demonstrated that the Reading Railroad Company is safe from the clutches of the Pennsylvania Railroad Company, and can be relied upon to open railway communication with New York as well as Philadelphia.

A few words about the Central Railroad Company of New Jersey. The Reorganization Trustees say that the lease of that line involves a loss to it, the Reading Railroad Company, of a million and a half dollars a year. But I say that this is not the fault of the leased line, nor is it due to anything else than the

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systematically bad management of the Receivers about which I have complained. The rental was to be six per cent. upon the capital stock, or about $1,100,000 a year over fixed charges. In 1881 the leased line earned $602,000 over its fixed charges, which was over three per cent. on its capital stock. It earned in 1882 $597,000 over its fixed charges, which was over three per cent. upon its capital. It earned in 1883 $854,000 over its fixed charges, which was not quite five per cent. upon its capital stock. When the lease was made in 1883 it was well understood that at least $400,000 in expenses could be saved yearly by the lessee. In 1884 the earnings had fallen down to $265,000 beneath its fixed charges, a loss of earnings of over $1,100,000 in one year, and this year they will be $275,000 beneath the fixed charges. Why this great falling off? Simply because this year they are not getting within forty or fifty cents a ton as much on coal traffic as they could get, and simply because last year they stopped the coal traffic of the leased line for three weeks in the very cream of the season.

Another proposition I should like to lay down is this. You will never get the Philadelphia and Reading Railroad Company out of trouble if you rely upon the local money market of the city of Philadelphia. They have excluded Mr. Gowen. Why? Because they wanted the confidence of the conservative capitalists of Philadelphia, who disliked Mr. Gowen. The Company wants $20,000,000. The united national bank capital of Philadelphia is about $17,000,000. After Mr. Gowen is excluded, after he is excommunicated, and beheaded and buried and forgotten by the conservative capitalists who take his place, the aforesaid conservative capitalists in whose favor he was immolated would not give the Reading Railroad Company $2,000,000. Is not that true? Why then spend any time over them? Has any one of them ever offered any money except at twelve or eighteen per cent. per annum? Has any one of them ever brought forward any plan to get money? No. Then why shut out other markets, and do away with other people who have power and ability to bring money into the concern?

Where was it ever written as a law of finance, that no company could be saved except by the capital of the city in which

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its main office was located? I should like some of these good old-fashioned financiers in Philadelphia, who are sometimes, as the newspapers say, so provincial as to

> "think the rustic cackle of their bourg,
> The murmur of the world,"

to remember that there are other places than Philadelphia where money can be had in this hemisphere, as well as in the other. And the many gentlemen who have been struggling with and baffled by this subject, in their endeavor to placate the capitalists of Philadelphia, would oblige me very much if they would tell me what combination of capitalists in the city of Philadelphia will give the Reading Railroad Company $20,000,000 to-morrow, to pay floating debt, Receivers' obligations, and overdue coupons. If they will show them to me, I will gladly vote for them as managers as soon as they have raised the money and applied it to its proper uses. If they cannot show me that—and they have given no signs of it as yet—then let them all step aside and give somebody outside of the city of Philadelphia the chance to do something. Let the lines of this Company reach other cities, and we can get help from other cities; let us have help from New York, let us have aid from Pittsburg, let us have assistance from Baltimore, and let the great future of the enterprise be promising enough to attract the attention of European capitalists as well. You cannot do that with a local coal road, but the moment you show that this is to be a great highway, with one arm in New York and another in Philadelphia, and another in Baltimore, with two western termini, one at Buffalo upon the Lakes, and the other at Pittsburg upon the Ohio river, then you represent a property that will command the respect, if not the admiration, of those who can furnish it with more money in twenty-four hours than all the conservative capitalists of Philadelphia, for whom Mr. Gowen has been sacrificed, could get together in the course of a whole calendar year.

Look at the magnitude of this property and its past earnings as compared with the amount of money required. There are $275,000,000 of debt and share capital invested in the Reading Railroad Company, the Central Railroad Company of New

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Jersey, and all their affiliated companies and leased lines. Upon this investment $17,770,000 was earned net three years ago, which is nearly six and a half per cent. on every dollar invested, including shares and deferred bonds. To-day it is earning over four per cent. on every dollar of capital invested in it. Will any one tell me that a property which two years ago earned over six per cent. upon every dollar of capital invested in it, and which to-day, under the worst management that any railroad ever had, is still earning over four per cent. upon every dollar of its capital, cannot be taken to some money market where sufficient aid can be had to put it on its feet?

How much do you want to save the Company? You want only about seven per cent. on the capital that is invested in it. It is no more difficult to deal with $275,000,000 than it is to deal with $10,000, provided your market is large enough, and provided your security is good enough. If anybody were to tell me that a merchant in Philadelphia, whose capital in his business was $1,000,000, and whose earnings were $65,000, only wanted $70,000 more capital to save him from bankruptcy, I should think that he was not in much danger, and yet that is just the proportion that the Reading Railroad Company wants. Why is it more difficult on a large scale than on a small one? On what principle? You only want the net earnings of one year in money to save you from ruin. If the whole investment of $275,000,000 was share capital, all that would be required to save the Company would be for the proprietors to go without income for one year, and thereafter they would get five or six per cent. dividends in each year. Although there is very little share capital, and very much debt, yet that debt in selling for so low a price, and so much of it can be paid off, that it is quite feasible to reorganize the Company upon a basis of $275,000,000, including the new money required, and with a practical certainty of the lowest security getting three or four per cent. dividends in the worst times. The proportion of money required to the capital invested is so small that when you come to divide it amongst the many thousands of individuals who will be asked to contribute to your fund, the amount that each one has to raise will be so little that

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the moment you give each something he can borrow upon, or sell, that moment you will secure his subscription, because for every dollar he contributes he will get value, and double the amount of his contribution will be added to the market value of his other securities.

Another thing I have to say. I have spoken too long already, and though I have not nearly finished I shall soon stop, for it is not right to detain you much longer. What I desire to say is, that it is easier to get a large amount of money if the security is good, than it is to get a small amount of money if the security is bad. If I have a house in Philadelphia worth $40,000, and there is one first mortgage on it of $10,000, and another second mortgage of $10,000, and I want to place a third mortgage of $10,000, I shall have great trouble to do it. But if I pay off the two prior mortgages I may be able to borrow $30,000 on a first mortgage. That solves the whole problem about the general mortgage bonds. The general mortgage can be paid off; the mortgage just ahead of the improvement mortgage can be drawn by the sinking fund very largely, and consequently the way to deal with the general mortgage is to pay it off, and put a new mortgage at four or four and a half per cent. in its place and in place of all drawn upon the improvement mortgage, and give the general mortgage creditors the option of taking their money in full, or taking the new bond. And remember, when you do that you save more than enough money on the general mortgage interest to pay interest on the whole income mortgage and the convertible adjustment scrip, and if there is any one thing more than another that must be admitted in this problem, it is, that the man who undertakes to save the Reading Railroad Company by fighting with the general mortgage and the income mortgage creditors had better retire before he commences. No man can save this property under the fire of the opposition of these two classes of creditors. They must either be settled with on their own terms as to interest, or they must be paid their principal, and it is only when you pay them their principal in full that they lose their right to investigate or complain about the manner in which you treat those who are below them in the order of priority.

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But I have occupied too much of your time, and though I have not finished, it is nearly eleven o'clock, and I must stop. I intended to say a great deal more. I intended to say about myself that I do not desire to take office for any selfish reason other than a wish to save my property. I have many reasons to incite me to action. A sense of duty to the hundreds of people who have invested in this property on my account compels me to action. I could never hold up my head in this community if I stood quietly by and saw this great property sacrificed, without making an effort to save it. An attempt has been made to injure my character, and I dare not be silent. I cannot see this battle lost. I must turn to the rescue, for if the ship does go down it seems to me I should be the last to leave her. I have the further incentive of having nearly all my own money invested in the Company. I shall be fifty years old at my next birth-day. I have worked as hard as any man ever worked, and the result of my work, about $211,000, is now in jeopardy in the Company. If I represented nobody but myself and had no other incentive to action I should not hesitate one moment as to my course, and I now give notice that I do not intend to see my money lost without making an effort to save it. I enter into this struggle because I know more about the property than all others put together. I ask for the position of President of the Company, because some strong hand is wanted to direct its course. It is governed by fifty people; and I never yet saw a great corporation taken out of trouble by a town meeting. I know I can do some good, and I tell you further that I go into the fight because I am going to win. And after I have won I believe that it will not be long before I shall be able to lay before you the results of my work.

I do not intend to say that my task is not a difficult one—that it is a mere child's play. It is as hard work as ever man undertook. Further I want to tell you that there may be foreclosure even under my management. I cannot shut my eyes to that, but if it does come it will not be foreclosure for the sake of getting money. It will only be because there may be among the junior security holders enough to hold out for six and seven per cent. when four or five is offered them, to

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make foreclosure a necessity, and if there are I tell you there will be foreclosure; but if there is, not a single man will be cut out. Every man after foreclosure will get his proper representation in the property. No one shall be cut out because he cannot pay.

We are all in the same boat, and every man must work. If I am captain and find I can only save all, providing all, whether passengers or crew, are willing to row or bail the boat, and one says, "I will do nothing; I paid for my passage, and the rest must save me," I will throw him overboard; and if he endangers the safety of others by clinging to the boat, I will give him a clip on the head with an oar, and only when he ceases to be dangerous will he be saved. I do not, therefore, by any means close my eyes to the fact that my task is a difficult one, and that it may have to be accomplished by foreclosure.

But what I do believe is this: That the holders of the general mortgage, the income mortgage, and the convertible adjustment scrip can either get a good low rate bond, or they can get their money. That should satisfy them. The other creditors can have in the proper order of their priority five per cent. payable out of earnings. That should satisfy them. If they will not be satisfied there must be foreclosure, but if there is foreclosure it will be to save and not to destroy.

It is now eleven o'clock. I cannot detain you any longer than to apologize for having consumed three hours of your time.

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TO THE STOCKHOLDERS OF THE PHILADELPHIA AND READING RAILROAD COMPANY:

As President of The Philadelphia and Reading Railroad and The Philadelphia and Reading Coal and Iron Companies, and as a Receiver of those Companies, I feel obliged to notice some of the public criticisms made by Mr. Franklin B. Gowen concerning the management of the Companies and the Receivership during the past two years, because they are calculated to work harm.

I was elected President of those Companies in January 1884, having previously been connected with them as Counsel, Solicitor, Vice-President, President *pro tem*, or Receiver *pro tem.* for nearly eighteen years. The titles of its immense purchases of coal lands had been passed upon by me, and no man ever questioned the fidelity with which I discharged all the varied and exacting duties of these offices. In 1883 Mr. Gowen, in pursuance of his previous public declarations, again announced his intention to decline a re-election as President, and solicited proxies to be sent to him, to be voted for me as President.

To this course I assented, feeling that my long familiarity with the affairs of the Company qualified me to render the stockholders efficient service.

Mr. Gowen well knew at this time that on many questions of policy and management I differed from him widely, and how keenly I felt the perils to the Company from its immense debt and corresponding interest charges.

Being elected, I accepted the office of President as a trust received directly from the stockholders, and without a word or syllable passing between Mr. Gowen and myself from which any inference of an understanding between us to the contrary could have been drawn. I took the office absolutely free to discharge its duties to the best of my

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judgment and ability, accountable only to the stockholders, and would never have accepted it on any other terms.

In a brief period thereafter, I discovered that Mr. Gowen's retirement was not intended as a reality, that he still expected to be in control. I, of course, would not permit him or any man to intervene between me and the discharge of the duties devolved upon me by the stockholders, and distinctly told him so, as he has himself recently stated.

But while thus declining to permit Mr. Gowen to assume responsibilities with which I and the Management were charged, I was then and at all times since, as he well knows, ever ready in the interest of the stockholders to render available for their benefit his experience and knowledge of the Company's affairs. I, as President and Receiver, favored his employment as counsel, and there was paid to him, as such, for his services from March, 1884, to March, 1885, a considerable sum of money.

The real difficulty in retaining Mr. Gowen's services was his inability to work with others except as master, and when the Board of Managers declined to accept his services on the condition that he should have control, he declined to be further concerned for the Company.

When I accepted the Presidency, I found $71,746.97 in bank and in the treasuries of the two Companies. I found them with a floating debt of over $8,0000,000 for borrowed money, for which the most valuable of their securities were pledged, and that in addition the coal on the wharves at Port Richmond had been hypothecated to raise a part of the money with which to pay the interest and charges maturing during January, 1884, and that also bills receivable for coal for future delivery had been obtained and discounted, which two latter items aggregate the further sum of nearly $1,100,000. Besides this, about fifty thousand shares of the stock of the New Jersey Central Railroad Company were being carried on margin, for which, in addition to the above, there was due by The Philadelphia and Reading Railroad Company about $3,450,000.

This state of affairs, with the habitually small earnings of the approaching winter months further diminished by an agreement made by the preceding Management to re-

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strict the coal trade for four months, and with the superadded burden of the Jersey Central lease, was a prospect the reverse of cheerful. I was, however, hopeful if the winter and spring months could be passed, all unnecessary expenditures on capital account avoided, and the dividend upon the shares prevented, it might be possible, with a favorable business for the year, such as was forecast in the report for the year 1883, and with such favorable financial conditions as would permit the placing of the Collateral Trust Loan, to avoid any financial breakdown.

I was in accord with Mr. Vanderbilt and other stockholders, who fully appreciated the straitened condition of the Company, and, knowing that it was in no condition to pay a dividend, united to defeat the proposition to declare the same, which was lost by a close vote.

Mr. Gowen next pressed on the attention of the Board of Managers the purchase, at a cost of some $5,000,000 or $6,000,000, of certain undeveloped coal lands in Schuylkill County, which would not be needed by the Company for a long period of time, and which would, in the meantime, cause a further fixed charge of about $300,000 per annum, without taking into account taxes and other charges. The plea for this was, that it would stop the building by the Pennsylvania Railroad Company of the competing line up the Schuylkill Valley, but as the management did not think it would have that effect, they declined to embark in the matter. They, however, authorized him to formulate the traffic contracts with the Baltimore and Ohio Railroad Company early in the summer of 1884. In April, 1885, his drafts of such contracts were submitted by him for the consideration of the Managers and Receivers.

The Managers of The Philadelphia and Reading Railroad Company and The Philadelphia and Reading Coal and Iron Company during the year 1884, were Messrs. Loring A. Robertson, E. C. Knight, I. V. Williamson, Henry Lewis, Joseph B. Altemus and J. B. Lippincott; and for the year 1885, they were Messrs. I. V. Williamson, J. B. Lippincott, Franklin A. Comly, Joseph Wharton, John Wanamaker and Robert H. Sayre, all gentlemen of great experience and high business capacity, who do not believe, as I never have

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believed, that the management of a large corporation, involving the interests of a great number of people, should be wielded by a "dictator."

The affairs of the Company were, therefore, constantly submitted at weekly, and frequently at semi-weekly meetings, to the consideration of the Managers, and, while not desiring to shirk any responsibility, I can say that at no stage of the Company's business, during my Presidency, was anything done, or omitted to be done, which was not, after free discussion, in full accord with the conclusions arrived at by the Management.

Mr. Gowen's charge that I and the Management were derelict in not complying with the directions of the shareholders in relation to placing the Collateral Trust Loan, is contradicted by his own words. The matter was carefully discussed by the Management, but they never received any guarantee from Mr. Gowen of a $12,000,000 loan at five per cent., or on any other terms, nor did he ever present to the Board any credible assurances that any such loan could be placed by him. In point of fact, prior to the financial crash, which took place in the early part of 1884, it was not practicable to place any such loan. Mr. Gowen himself had admitted this in the following language (which is to be found in the annual report for the year 1883), used by him at the stockholders' meeting, held on the 28th of January, 1884, viz.:—

"I desire to state, before the vote is taken, that I have "been informed many people expected some report to be "made at this meeting about the Collateral Trust Loan. "This meeting is an adjourned meeting for the purpose of "taking a vote upon the resolution, and for no other pur- "pose. The loan has not been offered to any man, woman, "child or institution. Nobody has taken or refused any, "because it was not offered. It was not considered wise to "do anything in January. We have no doubt of the ability "to get the money. The papers for it are not even drawn. "It has not yet passed the Board, and will not be acted "upon for two or three weeks. In the present *disturbed* "*condition* of the stock exchange values, it was not con- "sidered wise to do anything in the matter. There is no

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"doubt in my mind, of the Company getting the money, "whenever it is ready to take it. This meeting is simply "for the purpose of voting on the resolution, whether in "case the loan is negotiated the shareholders desire to "have a dividend or not."

The disturbed condition referred to by him in January continued until it culminated in the panic of the May following.

Mr. Gowen says that in 1884 too high a price was charged for coal, and that in 1885 too low a price was charged. Both these years were marked by extraordinary business depression and by great financial disturbances, as well as by a war of rates between the rival railroad transportation companies. These adverse causes acted strongly upon the coal business and rendered it exceedingly difficult for this Company to attain favorable results. In 1884, instead of realizing the forecast of the report for the year 1883, that the forty-eight days restriction agreed upon would suffice for the entire fiscal year, and that steady work could be maintained for the balance thereof, the depression in the coal trade was so great for that year as to compel one hundred and six days suspension. The prediction made by Mr. Gowen in January, 1884, in respect to the coal trade for that year, proved erroneous. The lamentable reductions which occurred in the revenues of this Company, as in those of other Companies, was not brought about by the action of this or any of the other companies concerned, and in the nature of things could not be, but arose wholly out of the general condition of business, and it was as impossible for the Reading Company to alter it as it was for it to have restrained the ebb of the tide. The course pursued by the Company was that which the officers having in charge this branch of its affairs, and specially skilled therein, believed to be for its best interests, and they were convinced that any other course would have been much more disastrous.

As to the allegation that during the year 1885, or the latter part of it, the Company could have had almost any price for its coal that it chose to ask, it is sufficient to say

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that such a statement is at variance with the true condition of the coal trade at that period. Every man who is at all acquainted with the subject well knows that the refusal of the Company to accept the market rates would have resulted in its business being diverted to other customers.

It comes with bad grace from Mr. Gowen to charge with mismanagement of the coal trade the present administration, which in two years of extraordinary depression, aggregated a profit for the Coal and Iron Company of $217,243, while under his management it lost in 1876, $653,000; in 1877, $755,000; in 1878, $752,000; in 1879, $699,000; or a total in four years of $2,859,000.

Mr. Gowen alleges that the Receivers permitted the sacrifice of securities pledged for the payment of the floating debt, when it was possible for them to have averted the same. In the matter of the protection of the floating debt, the Receivers constantly called to their aid and counsel the Managers of the Company, both endeavoring to avert any sacrifice of collateral securities. As long as the Receivers were permitted, by the order of court, to make payments on account of the principal for the protection of such securities, they did so when necessary, and when the court positively forbade the payment of anything but the interest on the secured floating debt, the Receivers paid every dollar on that account that the order of the court permitted them to pay. They at no time failed to pay the interest on any portion of the secured floating debt, and the suggestion that they have paid more than six per cent. on some and thereby were not able to pay even five per cent. on others is without any foundation. The creditors who have sold their collaterals have been up to the time of their respective sales in the receipt of six per cent. interest on their debts, and the Receivers were, at all times, ready, willing and prepared to continue their loans and to pay the interest thereon.

On the day the Company failed, June 2d, 1884, it is true that it agreed to pay to the purchaser of the coupons of the Consolidated Mortgage, amounting to $650,000, interest at the rate of six per cent. per annum for such time as the money might be used, and one per cent. commission. This

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operation was closed in one month. If repeated twelve times, it would have cost the Company eighteen per cent., but as it was a single transaction, it actually cost it one and a half per cent. It was a matter rendered absolutely necessary to minimize as far as possible the shock to the Company's credit resulting from its failure. No one more heartily approved of this transaction at the time, than Mr. Gowen, who was greatly pleased that Messrs. Drexel & Co. had extended this helping hand on these terms at that time. He drew the form for the very paper by which the agreement was to be evidenced. That he should now make this a matter of complaint against the Managers, Receivers, and myself, is under the circumstances most surprising.

In the fall of 1884, Messrs. W. S. Webb & Co., bankers of New York city, who for a debt of The Philadelphia and Reading Railroad Company, amounting to upwards of $800,000, held collaterals of the Company to the par value of several millions of dollars, including $8,000,000 of The Philadelphia and Reading Coal and Iron Company's stock, gave notice that, unless the debt was paid, the collaterals would be sold, and as such sale would have involved the loss of the control of The Philadelphia and Reading Coal and Iron Company and its ninety collieries and one hundred thousand acres of coal lands, it was absolutely essential that such a calamity should be prevented. The only source from which the Company was able to secure the money was from the parties with whom the arrangement was made to carry the same for one year at six per cent. and a commission of six per cent. The Receivers were reluctant to pay this commission, but as no other way appeared to save the great mass of collateral and preserve the control of the Coal and Iron Company and its properties, they finally concluded to do so, and requested the Managers to execute and carry out the contract which they had negotiated.

No definite or dependable offer was made by Mr. Gowen to furnish any portion of this money to take up this loan. It is true he made suggestions as to sources from which this money could be procured, but when application was made it was found impossible to obtain the same.

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Mr. Gowen further alleges that the Company and the Receivers have not treated the Central Railroad Company of New Jersey fairly. The sufficient answer to this is that the Receivers of The Philadelphia and Reading Railroad Company have been restrained, by the order of the court, from paying to the Central Railroad Company of New Jersey any money beyond the net earnings of the Company. These have been paid from day to day as the money was earned, and frequent payments have been made in advance of the actual receipt of the money of the Reading Company.

Mr. Gowen states that the Reading Railroad Company did not expend $500,000 in the construction of one thousand coal cars ordered by him for the business of 1884, and in consequence lost much money. He did order in October, 1883, fifteen hundred eight-wheel coal cars, of which three hundred were built in 1883 and seven hundred up to and inclusive of the month of May, 1884, leaving five hundred unbuilt instead of one thousand, as stated by him. Owing to the embarrassments of the Company and the panic in financial affairs the further building of said coal cars was stopped in the early part of the month of May. This was not done except after full consultation and approval of the proper officers of the Company, and the matter was referred to by the General Manager in his report for the year 1884 (see page 65 of the Annual Report for that year), as follows:—

"It having been deemed advisable during the preceding "year to increase the transportation facilities of the Com- "pany, the construction of forty-five locomotives, fifteen "hundred eight-wheeled coal cars, fifteen hundred eight- "wheeled freight cars, and thirty first-class passenger cars "was ordered, sixteen of these locomotives and three hun- "dred of the coal cars having been built during that year. "It became evident, however, early in the present year, that "the expectations of increased coal and freight traffic would "not be realized, and it was therefore decided, in May, 1884, "to stop all work on new coal and freight cars when there "were five hundred coal cars and fourteen hundred and "eighty-eight freight cars yet remaining to fill the requisi-

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"tion of the preceding year; no loss of traffic having, how-
"ever, resulted from the stoppage of construction of the
"new cars referred to.

I shall not attempt to follow Mr, Gowen in his narration of private conversations with Mr. Vanderbilt and others, nor to refute the parallel between Mr. Vanderbilt's control of the New York Central Railroad Company and the control which Mr. Gowen assumes of The Philadelphia and Reading Railroad Company upon an inconsiderable ownership of its stock. Neither is it for me to answer his complaint that no one of the Managers was willing to resign from the Board and give him a seat thereat.

It is quite true as charged, that I declined to embark in "any gambling scheme" by putting up any of the Reading Company's money, even so little as $250,000, directly or indirectly, for the purpose of sustaining the market for Jersey Central stock.

The gross earnings of the Companies during the two years of the present Management, reached over $92,000,000. It is not reasonable to expect that in so extended a business, in such times and under such circumstances, mistakes should not occur, but it is ungenerous and unfair to attempt to judge them not under the circumstances existing at the time they were made, but in the light of subsequent events. Yet, however judged, the verdict of all fair-minded men must be, that during a period of unexampled difficulty in the affairs of the Company, the officers, Managers, and the Receivers served it with thorough fidelity and produced the best results obtainable under the circumstances, avoiding calamities which a less prudent and conservative course would have entailed.

Mr. Gowen's course would have justified me in replying to his personalities, but as they are properly no part of your concern, I shall not intrude them upon you. Nor do I feel myself called upon to review the period of his control of Reading affairs.

Mr. Gowen correctly asserts that when a company gets into trouble, everybody should support those in charge. Yet in his efforts to shift the responsibility of the Company's troubles he has, from June, 1884, to the present time,

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worked most industriously in public and private, by conversation, by newspaper interviews, by circulars, by speech and by pamphlet, and has done more to hamper those in charge of the Company's affairs than any other person, and added immensely to the difficulties and embarrassments of the situation. If after all this effort the responsibility still abides with him he ought to realize the futility of his endeavor to make me a "scape-goat."

GEORGE DEB. KEIM.

PHILADELPHIA, January 11th, 1886.

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Drexel Plan

PROSPECTUS

AND

PLAN OF REORGANIZATION

OF

The Board of Reconstruction Trustees

OF

The Philadelphia and Reading Railroad Company

AND

The Philadelphia and Reading Coal and Iron Company.

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TO THE CREDITORS AND SHAREHOLDERS OF THE PHILADELPHIA AND READING RAILROAD COMPANY:

The Board of Reconstruction Trustees, chosen with the concurrence of two committees of creditors and the Board of Managers to represent the different classes interested, beg leave to present for your consideration the accompanying plan for the financial reorganization of the Company. We ask your attention to the following objects sought to be attained thereby:—

1. The reduction of the fixed charges within the minimum net earnings likely to be realized in future years.

2. The provision of means to pay all pressing claims, as over-due coupons, Receivers' certificates, arrears of taxes, &c., and in such way as not to oppress either the reorganized company or those from whom contributions are required.

3. The re-establishment of credit as a basis for the necessary betterments of the properties and extensions of the system in the future.

4. The maintenance of the independence of the Company and the retention under its control of all leased and controlled lines essential to the integrity of the Reading system or profitable in themselves.

5. The continued control of all valuable coal lands now owned by the Coal and Iron Company, or otherwise controlled.

6. The relief of the Company from the necessity to maintain, at the cost of mortgage creditors, contracts involving loss and adding little or nothing to the productiveness of the system.

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7. The protection of the present creditor class in the future management of the properties.

8. The preservation, as far as practicable, of existing priorities and equities.

9. The readjustment of the affairs of the Companies, if found practicable, without foreclosure.

The net earnings of the whole railway system and of the Coal and Iron Company jointly, for the fiscal year ended Nov. 30th, 1885, are stated at	$12,527,569
Of which the properties covered by the Central of New Jersey lease furnish	4,601,265
Net earnings exclusive of Central of New Jersey system, ...	$7,926,304

As the Central Company has decided that the repossession of its property would be desirable, and is conducting legal proceedings to effect it, and as the lease is entailing an annual loss upon the Reading Company of nearly a million and a half dollars, without providing facilities which may not be obtained from the Central or other lines through traffic contracts, we see no room for argument in favor of the continuance of the lease on present terms. Our aim has therefore been to bring the fixed charges, exclusive of the Central rent, sufficiently within above-given net earnings to insure permanence and establish credit.

The other leased lines involve an annual charge of $3,610,407. A very careful examination of the relation of these lines to the integrity of the system, and of their several earnings so far as the Company's mode of accounting permits, has satisfied us that this aggregate may safely be reduced within $3,000,000, without endangering the system or working injustice to the owners or creditors of the leased lines. These reductions can be more readily effected when the steps required for reorganization are further advanced, and they are therefore treated in the Plan only collectively.

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The amount allowed in the estimate of future fixed charges, incident to the ownership of the coal properties, is believed to be an outside limit, and that further reductions are possible without the loss of any collieries or tracts now contributing strength to the system.

The fact that the General Mortgage bondholders can take the property covered by that mortgage, pay the claims of all prior creditors and receive some return for their capital, which is not the case with any junior class, determines beyond question that the control of reorganization rests in great measure with the General Mortgage. There are, however, important properties covered by junior mortgages, notably the leaseholds of the North Pennsylvania and Delaware and Bound Brook Railroads by the Consolidated Mortgage of 1882, which should be preserved as part of the Reading system of the future. These contribute to the general earnings and should be recognized by the General and prior mortgage bondholders as entitling juniors to consideration.

For the concessions asked from the General Mortgage bondholders, they are compensated by the removal of claims to the amount of several millions which have obtained precedence of lien over the principal of their bonds; by the reductions of rents of leased lines, interest on Car Trusts, Coal and Iron debt, &c., and by the extension of the lien of the new four per cent. Mortgage to cover the various leaseholds and other property acquired since the execution of the present General Mortgage in 1874, subject, however, to the prior lien on certain properties of the Income and Consolidated Mortgage. At the same time they should bear in mind that, on the business of 1885, excluding all interest on the floating debt (save that on the Receivers' obligations), the sinking fund of the prior Consolidated Mortgage, and any payment on account of Car Trusts, except interest on the same, there remained, after paying the charges preceding the General Mortgage, only $117,913, applicable to payment of interest on that mortgage; and that, under the ruling of the court, which allows the payment of interest on the floating

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debt and also on account of the principal of the Car Trusts, there was actually a large deficiency in meeting the charges which the court has construed as entitled to precedence of payment over the General Mortgage.

If, in the view of Juniors, too much is accorded to the Generals, it must be remembered that this is only to be determined by the values of the securities of the reorganized company, and that the present estimates of these by capitalists and financiers differ widely. It is within the power of the holders of junior securities and shares to establish these values, and by negotiation of the new four per cent. bonds to pay off at par and interest the present Generals. The issue of about eight millions of dollars of preferred shares may be thus averted, and $400,000 of annual fixed charges be removed from ahead of the Income and Consolidated Stock in the future.

While the Income Mortgage has priority over the Consolidated as to the property covered by both, the fact that the latter possesses the added security of the leases above mentioned has led us to give equal recognition to the two, on the general earnings of the Company, while each is secured by the properties on which it is a lien prior to the General Mortgage.

For every assessment levied, preferred shares entitling holders to earnings up to five per cent. per annum are accorded. There are doubtless many stockholders and creditors, especially those whose holdings are comparatively small, upon whom an assessment in cash will prove burdensome. To these a partial relief will be found in the sale of such proportion of their several holdings as will provide the money required to meet the assessment upon the remainder. Their investments will then remain without diminution or increase, but represented by a smaller amount of stocks or bonds than formerly; this course being, in its practical effect, a surrender of a portion of present holdings in the interest of reorganization.

The sinking funds of the Consolidated (1871) and Improvement Mortgages have hitherto been suspended to at

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least the amount of $2,700,000, owing to the inability of the Company annually to maintain them. By paying up the arrears due to these funds, and maintaining them for the future, the Company will be enabled to save from two to three per cent. annually on the amount of the bonds so drawn. The sinking funds in arrears should be promptly met by the issue of an equal amount of the new bonds at the reduced rate, and the sinking funds should hereafter be maintained, and maturing bonds of the earlier issues be met, by corresponding issues under the new mortgage. As the sinking funds are operative annually, and the prior loans mature at various periods till 1911 inclusive, the saving in interest will depend upon the varying conditions of the money market and cannot be definitely computed.

The importance of vesting in the present creditor class, the management of the properties until their productiveness is considerably increased, and the propriety, on the other hand, of its being restored to the shareholders so soon as the prior charges are surely and continuously earned, is manifest. It is proposed to secure this control by depositing temporarily with trustees the common stock of the reorganized company. For the stock certificates so deposited corresponding marketable certificates will be issued by the trustees; and at the end of five years from the date of reorganization the trust will be terminated and the stock returned to the owners.

In conclusion, we present the subjoined summary of the charges upon the property at the successive stages of interest under reorganization, in comparison with the corresponding stages in the present organization of the Company. We believe an impartial examination of these figures will convince shareholders and creditors alike, that their respective claims upon future earnings will be so improved by the adoption of the proposed plan as to justify them in the concessions involved.

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Comparative Statement.

Present charges ahead of Income Mortgage Bonds,	$9,758,216
Proposed charges ahead of Income Mortgage Bonds,	8,198,637
Annual advantage to Income Mortgage Bonds,	$1,559,579
Present charges ahead of First and Second Series 5s,	$10,186,040
Proposed charges ahead of First and Second Series 5s,	8,198,637
Annual advantage to First and Second Series 5s (as to Second Series to the extent that they participate in the Consolidated Stock),	$1,987,403
Present charges ahead of Capital Stock,	$11,182,786
Proposed charges ahead of New Common Stock,	9,302,857
Annual advantage to New Common Stock,	$1,879,929

Equal to three per cent. on proposed New Common Stock.

Estimated Minimum Net Earnings and Proposed Funded Debt and Fixed Charges.

The net earnings of both Companies for the year ending November 30th, 1885, excluding Central New Jersey leased lines,			$7,926.304
Prior Mortgage Loans,	$33,421,700	$2,137,607	
General Mortgage Bonds,	24,686,000	987,440	
New Bonds for Outstanding Scrip,	2,000,000	80,000	
Exchange of Real Estate Mortgages,	2,100,000	84,000	
Exchange of Coal and Iron Company Real Estate Mortgages,	10,000,000	400,000	
Coal and Iron Mortgages extended,	3,000,000	180,000	
For purchase of Car Trusts,	2,566,000	102,640	
Total debt and Interest,	$77,773,700	$3,971,687	
Rent of leased lines reduced to,		3,000,000	
			$6,971,687
Balance after payment of interest and rentals, applicable to dividends (based on earnings of 1885),			$954,617

The authority to issue $15,000,000 of the New General Mortgage Bonds to take up shares or bonds of leased lines will only be exercised in cases where the interest and dividends can be thereby reduced so as to diminish the charges and thus increase net earnings of the Reading system.

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Estimated Capitalization and Fixed Charges under the Plan.

(Funding Matured Coupons to January 1st, 1886.)

Prior Mortgage Loans,		$33,421,700 00	$2,137,607 00
Real Estate Loans,		2,100,000 00	84,000 00
General and Perkiomen Mortgage £ Scrip,		2,000,000 00	80,000 00
P. & R. Coal and Iron Co. Mortgages,		10,000,000 00	400,000 00
" " " " " " Real Estate Mortgages Extended,		3,000,000 00	180,000 00
Car Trusts,		2,566,000 00	102,640 00
Leased lines not to exceed			3,000,000 00
General Mortgage Bonds,		24,686,000 00	987,440 00
		$77,773,700 00	$6,971,687 00

Preferred Stock:

For General Mortgage,		$11,949,280			
" Assessments, viz.:—					
" Incomes,	$9,990,000	999,000			
First Series 5s,	7,838,328	783,833			
Second Series 5s,	8,445,052	1,266,758			
Convertible 7s,	7,337,900	1,100,685			
Deb. R. R. Co.,	662,300	99,345			
Deb. C. & I. Co.,	1,117,000	167,550			
Stock,	37,847,425	7,569,480			
Deferred Incomes,	20,751,090	518,777			
Deb. & Guar. Scrip,	562,019	84,303			
Total Cash Assessments,			12,589,731	24,539,011 00 @ 5%	1,226,950 00
					$8,198,637 00

Income Stock:

For Incomes,	$9,990,000				
" Coupons, including December, 1885,	1,398,600				
				11,388,600 00	
Consolidated Stock:					
For First Series 5s,	7,838,328				
" Coupons including November, 1885,	587,875			@5%	1,104,220 00
			8,426,203		
" Second Series 5s,	2,111,263				
" Coupons including August, 1885,	158,345				
			2,269,608	10,695,811 00	
					$9,302,857 00

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Common Stock:			
For Second Series 5s, . .	$6,333,789		
" Coupons including August, 1885, ...	475,034	6,808,823	
" Convertible 7s, ...	7,337,900		
" Coupons including January, 1886, ...	928,900	8,266,800	
" Deb. R. R. Co., ...	662,300		
" Coupons including January, 1886, ...	84,415	746,715	
" Deb. C. & I. Co., . . .	1,117,000		
" Coupons including September, 1885, . . .	117,285	1,234,285	
" Stock, ...		37,847,425	
" Deferred Incomes, . .		4,150,218	
" Deb. and Guar. Scrip, .	562,019		
" Coupons including January, 1886, ...	103,232	665,251	59,719,517 00
			$184,116,639 00

JOHN B. GARRETT, *Chairman.*
HENRY W. BARTOL,
SAMUEL R. SHIPLEY,
HARRY F. WEST,
HENRY A. DU PONT,
THOMAS COCHRAN,
EDWARD C. KNIGHT.

Reconstruction Trustees.

PHILADELPHIA, March, 22d, 1886.

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PLAN OF REORGANIZATION.

There shall be created upon the property of the reorganized company or companies a new General Mortgage to secure bonds to the amount of $100,000,000, payable in fifty years and bearing interest at a rate not exceeding four per cent. per annum, free of tax. The new General Mortgage shall secure to the bonds issued thereunder a lien upon the mortgaged property prior to all classes of junior bonds and stock, except as to the priority of lien as to both principal and income accorded to the Income and Consolidated stock to be given in exchange for Incomes, First Series Fives, and twenty-five per cent. of Second Series Fives. If a sufficient number of the General Mortgage bonds shall be deposited under this Plan of Reorganization the same may be assigned, without foreclosure, to the Trustee of the new General Mortgage as security for the bonds to be issued thereunder; or if the principal and interest of the General Mortgage Bonds shall be paid to the Trustees under this Plan prior to January 1st, 1887, on receiving payment, they may transfer the same and distribute the proceeds, less expenses, to the parties entitled thereto.

Of the bonds secured by the new General Mortgage there shall be reserved for the payment

Of bonds secured by mortgages prior to the Consolidated Mortgage of 1871,	$5,246,700
Of bonds secured by Consolidated Mortgage of 1871	18,811,000
" " " " Improvement " " 1873,	9,364,000
	33,421,700
And of the balance remaining there shall be appropriated for the settlement of the principal of outstanding General Mortgage bonds,	24,686,000
To take up outstanding General Mortgage Scrip and Coupons,	2,000,000
For exchange or redemption of existing bonds and mortgages on real estate,	2,100,000

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To cover advances made in paying four per cent. interest on certificates issued to holders of General Mortgage bonds depositing under the plan, ...	3,000,000
[Any balance not used of the above $7,100,000 of bonds after the fulfillment of the above specified purposes may fall into the general residue, but with this exception the bonds issued shall not be used for any other purpose than that to which they are specifically devoted.]	
To take up the shares or bonds of leased lines belonging to the Reading system, &c., &c., ...	15,000,000
For exchange or redemption of Divisional Mortgages of The Philadelphia and Reading Coal and Iron Company, . . .	10,000,000
	$90,207,700
Leaving as a reserve for betterments, equipment and other after-acquired property, ...	9,792,300
	$100,000,000

No mortgage shall be placed upon the property in addition to the new proposed General Mortgage for $100,000,000 for five years after the reorganization, without the consent of a majority in the aggregate of the Preferred, Income and Consolidated Stock.

The *Preferred Stock* to be issued by the reorganized com pany shall be entitled to dividends up to five per cent. non-cumulative, with the privilege of conversion into Common Stock.

Income Stock shall be issued for Income Bonds and Convertible Adjustment Scrip, and *Consolidated Stock* shall be issued for the First Series Five Per Cent. Consolidated Bonds and twenty-five per cent. of the Second Series Five Per Cent. Consolidated Bonds. The said Income and Consolidated Stock shall be entitled to dividends up to five per cent. non-cumulative, out of the net earnings of the Company applicable thereto, after payment of five per cent. dividends on the Preferred Stock, with the privilege of conversion into Common Stock at par, and in case the net earnings of the Company should not be sufficient in any year to pay dividends equal to five per cent. on the Income and Consolidated Stock,

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the net earnings applicable to dividends of the properties on which the said Income Bonds, and First and Second Series Fives, respectively, have liens prior to the General Mortgage, as may be hereafter ascertained, shall be appropriated, so far as may be necessary, toward the payment of dividends, respectively, on the said two classes of Income and Consolidated Stock. In ascertaining such net earnings of said properties, there shall be deducted not only the ordinary charges against earnings, but also a sum, which shall always be equal to the amount of the present fixed charges against said properties, except where the principal of said fixed charges shall have been paid, or reduced, out of the earnings of said properties, or funded at a lower rate of interest, in which case, the sum to represent fixed charges, shall be reduced in accordance therewith.

General Mortgage.

The holder of each $1000 General Mortgage bond with overdue coupons, being those payable January 1st, 1885 and following, depositing the same with Messrs. Drexel & Co. to be held and used for the purposes of reorganization under the Plan, will receive from them a temporary certificate to be exchanged for a permanent engraved certificate for $1000, with coupons attached, bearing interest at four per cent. per annum for three years or until the reorganization in accordance herewith, if sooner effected, entitling him to receive from the reorganized company through Messrs. Drexel & Co., upon reorganization under this Plan, the following settlement:—

A Four per cent. new General Mortgage Bond,	$1,000
Preferred Stock,	480
	$1,480

Which is issued upon the following basis of settlement:—

Principal of bond,	$1,000 00
Three coupons now overdue, maturing January 1st, 1885, July 1st, 1885, January 1st, 1886,	90 00
	$1,090 00

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Interest at six per cent. per annum for the period of three years after January 1st, 1886 (coupon of July 1st, 1886), to January 1st, 1889, ...	$180 00	
Less three years' interest on certificates to be paid by Drexel & Co., ...	120 00	
		60 00
		$1,150 00
As compensation for the reduction of the rate of interest, . . .		330 00
		$1,480 00

To holders of existing seven per cent. General Mortgage bonds, $500 Preferred Stock instead of $480 will be issued.

In case a reorganization shall not be effected in accordance with this Plan, bonds and coupons of a like amount and kind deposited with Messrs. Drexel & Co. will be returned by them to the respective holders of the certificates of deposit upon the surrender of said certificate and the repayment of the amount of the coupons actually paid on each certificate with interest at four per cent. thereon to date of surrender, and their *pro rata* of the expenses, as provided in the agreement.

INCOME MORTGAGE AND CONVERTIBLE ADJUSTMENT SCRIP.

Holders shall pay a cash assessment of ten per cent. and shall receive for each $1000 bond and overdue coupons:

$100 Preferred Stock (Assessment),
$1000 Income Stock (Par value),

and such additional amount of Income Stock as will, at par, be equal to the face of coupons matured at the time of reorganization.

FIRST SERIES FIVE PER CENT. CONSOLS.

Holders shall pay a cash assessment of ten per cent., and shall receive for each $1000 bond and overdue coupons:

$100 Preferred Stock (Assessment),
$1000 Consolidated Stock (Par value),

and such additional amount of Consolidated Stock, as will,

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at par, be equal to the face of coupons matured at the time of reorganization.

Second Series Five Per Cent. Consols.

Holders shall pay a cash assessment of fifteen per cent., and receive for each $1000 of bonds and overdue coupons:

$150 Preferred Stock (Assessment),

$250 Consolidated Stock (Par value),

$750 Common Stock (Par value), and such additional amount of Consolidated and Common Stock in the above proportions, as will, at par, be equal to the face of coupons matured at the time of reorganization.

Convertible 7's and Debentures of the P. & R. R. R. Co. and the P. & R. C. and I. Co.

Holders shall pay a cash assessment of fifteen per cent., and receive for each $1000 of bonds and overdue coupons:

$150 Preferred Stock (Assessment),

$1000 Common Stock (Par value),

and such additional amount of common stock, as will, at par, be equal to the face of the coupons matured at the time of reorganization.

Unsecured Claims.

All unsecured claims (duly proven), whether funded or floating, shall receive the recognition accorded to Debenture Bonds.

Preferred and Common Stock.

Holders shall pay a cash assessment of $10 per share and receive Preferred Stock for the same and receive for their holdings an equal amount at par value of Common Stock of the new company.

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Deferred Income Bonds.

Holders shall pay a cash assessment of two and a half per cent. of the principal of their present holdings and shall receive for each $1000:

$25 Preferred Stock (Assessment),
$200 Common Stock (Par value).

The deposit of all securities junior to the General Mortgage shall be made with, and the payment of all assessments thereon shall be made to, Messrs. Brown Bros. & Co.

For the protection of the creditor class assenting hereto, the Common Stock of the reorganized company or companies shall be vested in John Lowber Welsh, J. Pierpont Morgan, Henry Lewis, George F. Baer, and Robert H. Sayre, or their successors to be appointed as prescribed in the agreement between the Board of Reconstruction Trustees and the Syndicate, as Trustees, to be held and voted upon for five years from the date of reorganization. For the stock certificates thus vested in said Trustees, corresponding marketable certificates shall be issued by them.

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March 22. 1886

AGREEMENT

OF

CREDITORS AND STOCKHOLDERS

WITH

The Board of Reconstruction Trustees

OF

The Philadelphia and Reading Railroad Company

AND

The Philadelphia and Reading Coal and Iron Company.

ALLEN, LANE & SCOTT, PRINTERS.

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This Agreement, Made this twenty-second day of March, A. D. 1886, between **John B. Garrett, Henry W. Bartol, Samuel R. Shipley, Harry F. West, Henry A. Du Pont, Thomas Cochran, and Edward C. Knight,** Reconstruction Trustees of The Philadelphia and Reading Railroad Company and The Philadelphia and Reading Coal and Iron Company, hereinafter called the Board, and such other person or persons as may hereafter from time to time be constituted members of said Board, of the first part, and such of the stockholders, bondholders, and other creditors of the said The Philadelphia and Reading Railroad Company and The Philadelphia and Reading Coal and Iron Company as shall become parties to this agreement and comply with the terms thereof, of the second part, **Witnesseth:**

Whereas, The said Companies are indebted to various parties, as appears by their books, *inter alia*, as follows:—

RAILROAD COMPANY AS OF NOVEMBER 30TH, 1885.

Prior Mortgage Loan,	$5,246,700 00
Consolidated Mortgage Loan of 1871–1911,	18,811,000 00
Improvement Mortgage "	9,364,000 00
General Mortgage Loan,	24,686,000 00
Sterling Scrip,	1,694,430 00
Perkiomen Scrip,	97,290 00
Income Mortgage (issued and out as collateral),	9,990,000 00
Five per cent. Consols, first series (issued and out as collateral),	7,838,328 00
Five per cent. Consols, second series (issued and out as collateral),	8,455,052 00
Bonds and Mortgages on Real Estate,	2,098,200 00
Convertible Adjustment Scrip (issued and out as collateral),	(3,154,730)
Debenture Loans,	662,300 00
Convertible Loans,	7,515,400 00
Debenture and Guarantee Scrip,	562,019 00
Floating Debt,	20,832,624 00

(The Convertible Adjustment Scrip and some of the floating debt are secured by a pledge of a portion of the bonds enumerated above.)

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COAL AND IRON COMPANY AS OF NOVEMBER 30TH, 1885.

Divisional Mortgages,	$12,338,000 00
Other Real Estate Mortgages,	925,087 00
Mortgage of 1874, held by Philadelphia and Reading Railroad Company,	29,737,965 00
Mortgage of 1876, held by Philadelphia and Reading Railroad Company,	10,000,000 00
Debenture Bonds,	1,117,000 00
Floating Debt,	4,237,553 00

And Whereas, The said Railroad Company is the owner of the stock of the said Coal and Iron Company, and is also the owner of various incumbrances against said Coal and Iron Company, the amounts of the principal of which are as follows:—

Mortgage of 1874,	$29,737,965 00
Mortgage of 1876,	10,000,000 00

And Whereas, The said Railroad Company holds certain of its rolling stock upon car trusts as follows:—

Issue of February 15th, 1883,	$1,600,000 00
Issue of March 15th, 1884,	966,000 00

And Whereas, The said Railroad Company and the said Coal and Iron Company are now insolvent and in the hands of Receivers:—

And Whereas, The said stockholders, bondholders, and other creditors joining in this agreement, fully believe it to be their interest to unite in the following plan of reorganization, to wit:—

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PLAN OF REORGANIZATION.

"There shall be created upon the property of the reorganized company or companies a new General Mortgage to secure bonds to the amount of $100,000,000, payable in fifty years and bearing interest at a rate not exceeding four per cent. per annum, free of tax. The new General Mortgage shall secure to the bonds issued thereunder a lien upon the mortgaged property prior to all classes of junior bonds and stock, except as to the priority of lien as to both principal and income accorded to the Income and Consolidated stock to be given in exchange for Incomes, First Series Fives, and twenty-five per cent. of Second Series Fives. If a sufficient number of the General Mortgage bonds shall be deposited under this Plan of Reorganization the same may be assigned, without foreclosure, to the Trustee of the new General Mortgage as security for the bonds to be issued thereunder: Or if the principal and interest of the General Mortgage bonds shall be paid to the Trustees under this Plan prior to January 1st, 1887, on receiving payment, they may transfer the same, and distribute the proceeds, less expenses, to the parties entitled thereto.

Of the bonds secured by the new General Mortgage there shall be reserved for the payment

Of bonds secured by mortgages prior to the Consolidated Mortgage of 1871,	$5,246,700
Of bonds secured by Consolidated Mortgage of 1871,	18,811,000
" " " " Improvement " " 1873,	9,364,000
	33,421,700
And of the balance remaining there shall be appropriated for the settlement of the principal of outstanding General Mortgage bonds	24,686,000
To take up outstanding General Mortgage Scrip and Coupons,	2,000,000
For exchange or redemption of existing bonds and mortgages on real estate	2,100,000
To cover advances made in paying four per cent. interest on certificates issued to holders of General Mortgage bonds depositing under the plan,	3,000,000

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[Any balance not used of the above $7,100,000 of bonds after the fulfillment of the above specified purposes may fall into the general residue, but with this exception the bonds issued shall not be used for any other purpose than that to which they are specifically devoted.]	
To take up the shares or bonds of leased lines belonging to the Reading system, etc., etc., ...	15,000,000
For exchange or redemption of Divisional Mortgages of The Philadelphia and Reading Coal and Iron Company, . . .	10,000,000
	$90,207,700
Leaving as a reserve for betterments, equipment and other after-acquired property, ...	9,792,300
	$100,000,000

No mortgage shall be placed upon the property in addition to the new proposed General Mortgage for $100,000,000 for five years after the reorganization, without the consent of a majority in the aggregate of the Preferred, Income and Consolidated Stock.

The *Preferred Stock* to be issued by the reorganized company shall be entitled to dividends up to five per cent. non-cumulative, with the privilege of conversion into Common Stock.

Income Stock shall be issued for Income Bonds and Convertible Adjustment Scrip, and *Consolidated Stock* shall be issued for the First Series Five Per Cent. Consolidated Bonds and twenty-five per cent. of the Second Series Five Per Cent. Consolidated Bonds. The said Income and Consolidated Stock shall be entitled to dividends up to five per cent. non-cumulative, out of the net earnings of the Company applicable thereto, after payment of five per cent. dividends on the Preferred Stock, with the privilege of conversion into Common Stock at par, and in case the net earnings of the Company should not be sufficient in any year to pay dividends equal to five per cent. on the Income and Consolidated Stock, the net earnings applicable to dividends of the properties on which the said Income Bonds, and First and Second Series Fives, respectively, have liens prior to the General Mortgage, as may be hereafter ascertained, shall be appropriated, so far as may be necessary, toward the payment of dividends, respectively, on the said two classes of Income

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and Consolidated Stock. In ascertaining such net earnings of said properties, there shall be deducted not only the ordinary charges against earnings, but also a sum, which shall always be equal to the amount of the present fixed charges against said properties, except where the principal of said fixed charges shall have been paid, or reduced, out of the earnings of said properties, or funded at a lower rate of interest, in which case, the sum to represent fixed charges, shall be reduced in accordance therewith.

GENERAL MORTGAGE.

The holder of each $1000 General Mortgage bond with overdue coupons, being those payable January 1st, 1885, and following, depositing the same with Messrs. Drexel & Co. to be held and used for the purposes of reorganization under the Plan, will receive from them a temporary certificate to be exchanged for a permanent engraved certificate for $1000 with coupons attached bearing interest at four per cent. per annum for three years or until the reorganization in accordance herewith, if sooner effected, entitling him to receive from the reorganized company through Messrs. Drexel & Co., upon reorganization under this Plan, the following settlement:—

A four per cent. new General Mortgage Bond	$1,000
Preferred Stock	480
	$1,480

Which is issued upon the following basis of settlement:—

Principal of Bond		$1,000 00
Three coupons now overdue, maturing January 1st, 1885, July 1st, 1885, January 1st, 1886		90 00
		$1,090 00
Interest at six per cent. per annum for the period of three years after January 1st, 1886 (coupon of July 1st, 1886), to January 1st, 1889,	$180 00	
Less three years' interest on certificates to be paid by Drexel & Co.,	120 00	60 00
		$1,150 00
As compensation for the reduction of the rate of interest		330 00
		$1,480 00

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To holders of existing seven per cent. General Mortgage bonds, $500 Preferred Stock instead of $480 will be issued.

In case a reorganization shall not be effected in accordance with this Plan, bonds and coupons of a like amount and kind deposited with Messrs. Drexel & Co. will be returned by them to the respective holders of the certificates of deposit upon the surrender of said certificate and the repayment of the amount of the coupons actually paid on each certificate with interest at four per cent. thereon to date of surrender and their *pro rata* of the expenses, as provided in the agreement.

INCOME MORTGAGE AND CONVERTIBLE ADJUSTMENT SCRIP.

Holders shall pay a cash assessment of ten per cent. and shall receive for each $1000 bond and overdue coupons:

$100 Preferred Stock (Assessment),

$1000 Income Stock (Par value),

and such additional amount of Income Stock as will, at par, be equal to the face of coupons matured at the time of reorganization.

FIRST SERIES FIVE PER CENT. CONSOLS.

Holders shall pay a cash assessment of ten per cent., and shall receive for each $1000 bond and overdue coupons:

$100 Preferred Stock (Assessment),

$1000 Consolidated Stock (Par value),

and such additional amount of Consolidated Stock, as will, at par, be equal to the face of coupons matured at the time of reorganization.

SECOND SERIES FIVE PER CENT. CONSOLS.

Holders shall pay a cash assessment of fifteen per cent., and receive for each $1000 of bonds and overdue coupons:

$150 Preferred Stock (Assessment),

$250 Consolidated Stock (Par value),

$750 Common Stock (Par value), and such additional amount of Consolidated and Common Stock in the above proportions, as will, at par, be equal to the face of coupons matured at the time of reorganization.

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CONVERTIBLE 7's AND DEBENTURES OF THE P. & R. R. R. Co. AND THE P. & R. C. AND I. Co.

Holders shall pay a cash assessment of fifteen per cent. and receive for each $1000 of bonds and overdue coupons:

$150 Preferred Stock (Assessment),
$1000 Common Stock (Par value),

and such additional amount of common stock, as will, at par, be equal to the face of the coupons matured at the time of reorganization.

UNSECURED CLAIMS.

All unsecured claims (duly proven), whether funded or floating, shall receive the recognition accorded to Debenture Bonds.

PREFERRED AND COMMON STOCK.

Holders shall pay a cash assessment of $10 per share and receive Preferred Stock for the same, and receive for their holdings an equal amount at par value of Common Stock of the new company.

DEFERRED INCOME BONDS.

Holders shall pay a cash assessment of two and a half per cent. of the principal of their present holdings and shall receive for each $1000:

$25 Preferred Stock (Assessment),
$200 Common Stock (Par value).

The deposit of all securities junior to the General Mortgage shall be made with, and the payment of all assessments thereon shall be made to, Messrs. Brown Bros. & Co.

For the protection of the creditor class assenting hereto, the Common Stock of the reorganized company or companies shall be vested in John Lowber Welsh, J. Pierpont Morgan, Henry Lewis, George F. Baer, and Robert H. Sayre, or their successors to be appointed as prescribed

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in the agreement between the Board of Reconstruction Trustees and the Syndicate as Trustees, to be held and voted upon for five years from the date of reorganization. For the stock certificates thus vested in said Trustees, corresponding marketable certificates shall be issued by them."

And Whereas, Messrs. Brown Bros. & Co. have consented to act as depositaries under this agreement of the stock and of the securities other than the General Mortgage bonds, of the aforesaid companies upon the terms and in the manner set forth in the following contract between them and the Board of Reconstruction Trustees, viz. :—

"**Agreement,** Between the **Board of Reconstruction Trustees of the Philadelphia and Reading Railroad Company** and **The Philadelphia and Reading Coal and Iron Company** and **Messrs. Brown Bros. & Co.**

Whereas, Messrs. John B. Garrett, Henry W. Bartol, Samuel R. Shipley, Harry F. West, Henry A. Du Pont, Thomas Cochran, and Edward C. Knight have been duly appointed and are acting as a Board of Reconstruction Trustees for the creditors of the Philadelphia and Reading Railroad Company and of the Philadelphia and Reading Coal and Iron Company, hereinafter called the Board, and as such have prepared the form of an agreement for the reorganization of the said companies, and have requested Messrs. Brown Bros. & Co. to act as the depositaries of the various securities provided in said agreement (a copy of which is hereto annexed) to be deposited with them, and to receive the assessments provided in said agreement to be paid on such securities:—

Now, therefore, in consideration of the payments herein-

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after provided for, it is agreed by and between the said Board, parties of the first part, and the said Brown Bros. & Co., parties of the second part, as follows:—

I. The parties of the second part agree that they will receive the securities, together with the respective assessments thereon provided in the said Agreement between the said Board and the creditors of the two companies, a copy of which is hereto annexed, and will deposit the said securities and assessments in such Philadelphia Trust Companies as may be designated by the said Board, and subject to its order, in accordance with the said Plan of Reorganization, or any modification thereof adopted as therein provided.

II. Should a reorganization by the said parties of the first part not take place, the securities and assessments received by the parties of the second part, as herein provided, shall be returned, subject to the terms of the annexed agreement, to the holders of the certificates of deposit, upon the surrender of the same.

III. There shall be paid to Messrs. Brown Bros. & Co. for their services as such depositaries, by the holders of the securities and stock deposited:—

1. In case the Plan, or any modification thereof approved by the Board, proves successful and is carried out:

Upon all securities of the company subsequent in lien to the General Mortgage bonds, excepting Deferred Income bonds, and upon all Stock, Preferred or Common, so delivered, one-eighth of one per cent. upon the par value thereof, to be charged only once.

2. In case the Plan or such modification shall not be carried out, and the securities deposited are returned to the depositor thereof, one-half of the above rates.

IV. The said Board shall not be personally liable for the expenditures or compensation of the parties of the second part as herein provided. It is agreed that the pro-

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portion of the aggregate of the expenses of the said Board, including the commissions to be paid to the parties of the second part, for which each depositor shall be held liable, shall not exceed one-half of one per cent. of the par value of the securities deposited by him; and it is further agreed that Messrs. Brown Bros. & Co. shall have a lien upon each of the securities deposited with them, and upon the proceeds of the same and all reinvestments thereof, to the extent of such one-half of one per cent. of the par value of the securities so deposited as aforesaid, as a security to them for their compensation hereinbefore provided for—which said compensation is to be paid in full before any other expenses of the said Board."

And Whereas, A Syndicate has been formed in order to supply the requisite capital to effect the reorganization of the said companies in accordance with the foregoing Plan of Reorganization, with whom the Board have made the following contract, viz.:—

"**Whereas,** Certain of the stockholders, bondholders, and other creditors of the Philadelphia and Reading Railroad Company and the Philadelphia and Reading Coal and Iron Company have, by agreement dated the twenty-second day of March, 1886, constituted **John B. Garrett, Henry W. Bartol, Samuel R. Shipley, Harry F. West, Henry A. Du Pont, Thomas Cochran,** and **Edward C. Knight,** and their successors (therein called the Board of Reconstruction Trustees), their agents, with the powers therein expressed, to carry out the Plan of Reorganization of the said company therein set forth, and a Syndicate has been formed to supply the requisite capital to effect reorganization under said Plan and thereby avoid further loss and unnecessary delay and litigation,

The said **Board of Reconstruction Trustees** hereby agree

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with **John Lowber Welsh, J. Pierpont Morgan** and **John C. Bullitt**, a committee acting for and on behalf of the said Syndicate :—

I. That the Syndicate having been formed with a subscription of $15,000,000, the said sum or so much thereof as may be necessary shall be used to aid in effecting the reorganization under said Plan, of the Philadelphia and Reading Railroad Company and the Philadelphia and Reading Coal and Iron Company and their affiliated companies.

II. The Syndicate shall be substituted in the place of any creditor or stockholder who may neglect or refuse to pay the assessments prescribed by the Plan and thereby fail to become entitled to the securities of the new company or companies; and the Syndicate agrees to pay all assessments of such creditors or stockholders, upon which they shall receive the securities to which such creditors or stockholders would have been entitled had they paid their assessments and deposited under the Plan.

III. Pending reorganization there shall be issued by Messrs. Drexel & Co. to the holders of General Mortgage Bonds depositing with them under the Plan, negotiable certificates for $1000 each, bearing four per cent. interest per annum semi-annually, for a period not exceeding three years from January 1st, 1886. In case of failure of the proposed Plan, a $1000 bond with all coupons as deposited shall be returned to the holder of a $1000 certificate with unpaid coupons attached, upon its surrender and the repayment of the amount of the coupons actually paid upon each certificate with interest at four per cent. to date of surrender, and their *pro rata* share of the expenses; as provided in the above recited agreement.

IV. The Syndicate shall, pending foreclosure and reorganization, advance the expenses and disbursements provided for by the hereinabove recited agreement between said

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Board and the stock and security holders of said companies and shall be refunded by the reorganized company all moneys advanced by them on account of the interest paid on the certificates issued for General Mortgage Bonds through Messrs. Drexel & Co. pending reorganization, and all other amounts advanced by them to the present company or companies or to the board, and all disbursements pending reorganization or on account of this agreement, and interest thereon at six per cent. per annum shall be allowed.

The Syndicate shall be paid by the reorganized company, as compensation for their services and guarantee, a commission of five per cent. upon $15,000,000, the amount of the capital subscribed by them.

V. John Lowber Welsh, J. Pierpont Morgan, Henry Lewis, George F. Baer, and Robert H. Sayre shall be the five Voting Trustees who shall vote the stock of the reorganized company or companies deposited under the Plan, to whom such power shall be confided for five years after reorganization.

In case of the death, refusal to act, or retirement of either John Lowber Welsh or J. Pierpont Morgan, his place shall be filled by the Syndicate; of Henry Lewis or George F. Baer, by the Board; of Robert H. Sayre, by the four remaining Trustees.

VI. Samuel Dickson, John Lowber Welsh, Henry A. Du Pont, Thomas Cochran, and Henry F. West shall be the Executive Committee under the agreement to take charge of the foreclosure proceedings and purchase of the property, the organization of the new company or companies, and generally to do whatever may appertain to reconstruction.

In case of the death, retirement, or refusal to act of either Samuel Dickson or John Lowber Welsh, his place shall be filled by the Syndicate; of Henry A. Du Pont or Thomas Cochran, by the Board; of Harry F. West, by the committee.

VII. The members of the Board of Reconstruction

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Trustees act herein as representing each of the several stockholders and creditors of the above mentioned companies who may deposit under this Plan, and bind each to the extent only of his individual interest or holding; and Messrs. John Lowber Welsh, J. Pierpont Morgan, and John C. Bullitt, as representing the Syndicate, hereby agree to pledge the subscriptions of $15,000,000 made by the members of the Syndicate for the fulfillment of the undertakings on their part, there being no personal obligation upon any one beyond the agreement made by the several subscribers for the amount agreed to be paid by them: and the members of said Board and Syndicate Committee do not hereby assume personal responsibility."

And Whereas, An agreement has been entered into, between the said Board of the first part, the said Syndicate Committee of the second part, and Messrs. Drexel & Co. of the third part, which is as follows:—

"**Agreement,** Between the **Board of Reconstruction Trustees** of the **Philadelphia and Reading Railroad Company** and the **Philadelphia and Reading Coal and Iron Company,** of the first part, **John Lowber Welsh, J. Pierpont Morgan, and John C. Bullitt,** a committee acting on behalf of the subscribers to a certain agreement bearing date the twenty-second day of March, 1886, known as the Syndicate Committee, of the second part, and **Messrs. Drexel & Co.,** of the third part.

Whereas, Messrs. John B. Garrett, Henry W. Bartol, Samuel R. Shipley, Harry F. West, Henry A. DuPont, Thomas Cochran, and Edward C. Knight have been duly appointed and are acting as a Board of Reconstruction Trustees for the creditors and stockholders of the Philadelphia and Reading Railroad Company and of the Philadelphia and Reading Coal and Iron Company, hereinafter called the Board, and as such have prepared a form of an agreement for the reorganization of the said companies,

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and Messrs. Drexel & Co. have been requested to act as the depositaries of the General Mortgage bonds deposited thereunder.

And Whereas, In pursuance of an agreement between the Board of Reconstruction Trustees and the Syndicate, Messrs. Drexel & Co. have consented to act as depositaries under this agreement, of the General Mortgage bonds upon the terms, and in the manner set forth in the following contract:—

Now, therefore it is agreed between the parties hereto, as follows:—

First.—Messrs. Drexel & Co. agree that they will receive the said General Mortgage bonds and will deposit the same in such Philadelphia Trust company as may be designated by the Board, in accordance with the said Plan of Reorganization, or any modification thereof adopted as therein provided.

Second.—Messrs. Drexel & Co. agree that they will issue to the holders of the said General Mortgage bonds depositing the same, temporary certificates of deposit in the forms annexed hereto as Exhibits A and B., to be exchanged for permanent engraved certificates of $1000 each as soon as they can be prepared, said engraved certificates to be countersigned by said Trust Company.

Third.—Messrs. Drexel & Co. agree that they will pay interest upon the said certificates as provided in the coupons annexed to the engraved certificates, at the rate of four per centum per annum, and should no reorganization take place, that the said Trust Company will deliver the said General Mortgage bonds, and coupons as deposited, and represented by the certificates of deposit of equal amounts to the holders of the certificates of deposit upon the surren-

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der of the same and the refunding to Messrs. Drexel & Co. of the amount of the coupons annexed to the said certificates which have been paid by Messrs. Drexel & Co. with interest at the rate of four per cent. per annum thereon to date of surrender.

Fourth.—In case the plan or any modification thereof approved by the Board proves successful and is carried out, there shall be paid by the Reorganized Company to Messrs. Drexel & Co. for their services as such depositaries a sum equal to one-quarter of one per cent. upon the par value of the General Mortgage bonds deposited with them; but if the same shall not be carried into effect, Messrs. Drexel & Co. will make no charge for their services as aforesaid.

Fifth.—The Syndicate will deposit or cause to be deposited with Messrs. Drexel & Co., on or before the dates of the maturity of the several coupons attached to the certificates, a sum equal to the amount of the coupons then maturing.

Sixth.—If the plan shall be carried into effect the amounts so advanced by the Syndicate shall be refunded by the Reorganized Company as provided in the agreement between the Board and the Syndicate Committee; but if the plan shall not be successful Messrs. Drexel & Co. will refund the sums when and as repaid to them by the holders of the said certificates of deposit."

Now this Agreement Witnesseth, That the said stockholders, bondholders and other creditors assenting hereto, hereby promise and agree, to and with each other and with the said Board of Reconstruction Trustees as follows:—

First.—That they are the owners or representatives of the owners of the securities and stock hereinafter respectively set opposite their names, or deposited hereunder, and

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that they will in all cases deposit them in good faith, the General Mortgage bonds with Messrs. Drexel & Co., and the stock and all other securities and claims with Messrs. Brown Bros. & Co., or such other persons respectively, as the Board may select, and accept in lieu thereof a certificate or certificates of deposit therefor, and that they will in all cases execute transfers of their said stock, securities and claims, and deposit the same with their said stock and securities, so that the legal title of the said stock, securities and claims shall become vested in the said Board: **Provided however**, That if any of the said stockholders, bondholders or other creditors shall fail to surrender and transfer their said stock and securities, in accordance herewith, or in any other respect fail to comply fully with the terms of this agreement, they shall from and after such omission or failure have no right or title to participate in the benefits of this agreement.

Second.—That the said assenting stockholders, bondholders, and other creditors, agree to accept in lieu of their certificates of stock, bonds, or other evidences of their claims, certificates of deposit, signed by the respective depositaries, which certificates shall contain the following:—

"This deposit is made subject to an agreement between certain of the stockholders, bondholders, and other creditors of The Philadelphia and Reading Railroad Company and the Philadelphia and Reading Coal and Iron Company, of the one part, and John B. Garrett, Henry W. Bartol, Samuel R. Shipley, Harry F. West, Henry A. Du Pont, Thomas Cochran, and Edward C. Knight, therein called the Board of Reconstruction Trustees of the said two corporations, of the other part, bearing date the Twenty-second day of March, 1886. This certificate is transferable subject to the terms and conditions of the said agreement, by an assignment in writing indorsed hereon.

The acceptance hereof shall have the same effect as if the holder had actually signed the said agreement."

And on the certificates of deposit to be issued to such

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assenting stockholders, bondholders, and other creditors, there shall, when payments in cash shall have been required to be made, and shall have been made, be printed or stamped thereon, the following:—

"On the within mentioned * * * * (shares of stock, bonds, or other evidences of claims as the case may be) * * the assessment of cash required to be made under the terms of the agreement mentioned in the within certificate, has been paid in cash, and placed to the credit of the Board of Reconstruction Trustees of The Philadelphia and Reading Railroad Company and The Philadelphia and Reading Coal and Iron Company."

The words subscriber, depositor, assenting stockholder or creditor, or other words equivalent thereto, whenever used herein, shall be held to include individuals, trustees, guardians, committees, agents, and other persons acting in a representative or fiduciary capacity, with control over the stock, securities, or claims held by them, partnerships, partnership associations, joint stock companies, and corporations.

By the acceptance of the certificates of deposit hereinbefore referred to, the several parties of the second part, respectively depositing their stock, bonds and other obligations with Messrs. Drexel & Co. or Messrs. Brown Bros. & Co., become parties to this agreement with the same force and effect as if they had severally affixed their signatures and seals at the foot of this instrument.

Third.—That the said assenting stockholders, bondholders and other creditors hereby agree to pay the assessments on their stock, securities and claims which are subject to assessment, according to the above recited Plan of Reorganization, at the time of depositing under or signing this agreement, and when and as called for by the Board or the Executive Committee; and if any such assenting creditor or stockholder shall fail to comply with this, as well as all other requirements of this agreement, they shall have no rights under this agreement, notwithstanding any partial performance hereof, including any assessments paid in by them;

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subject to the right of the syndicate to take and pay for the securities upon which any creditor or stockholder may fail or refuse to pay his, her, or their assessments, they hereby authorize and empower the said Board to raise the necessary cash by a pledge, or sale of the quota of the new stock and securities, which would otherwise have been allotted to non-assenting creditors and stockholders, had they assented to this plan, and apply the proceeds of such pledge or sale, to the purchase-money of the property to be bought by them, and to use such proceeds thus raised, for the purpose of carrying out the foregoing Plan of Reorganization. The Board shall also be empowered to invest any part of the assessments when paid in, in Receivers' certificates, issued under the order of the United States Circuit Court, by the Receivers of the Philadelphia and Reading Railroad Company and of the Philadelphia and Reading Coal and Iron Company.

Fourth.—That the said assenting stockholders, bondholders and other creditors hereby constitute the said Board their agents to carry out the foregoing Plan of Reorganization in all respects, including the power to declare due the principal of any of the obligations deposited hereunder, and to call, or attend and vote, either in person or by proxy at, any and all meetings of stockholders or bondholders, however convened, in the name and on behalf of those depositing hereunder, to institute and become parties to all legal proceedings which they personally or any of them or any class of them could have instituted, and to participate in all such legal proceedings now existing; to settle or enter into settlement thereof in whole or in part, including the power to enter into arrangements to obtain interlocutory decrees, or to hasten the course of litigation; to adjourn the sale of the properties of the said two corporations, or of any portion or lots thereof, in the same manner as any class of bondholders represented by them as a body could have done; to bid for the property and franchises of the said Railroad Company and of the said Coal and Iron Company, or any part thereof, whether

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or not, owned, controlled or covered by any of the securities deposited, either in separate lots, or as a whole, including the rolling stock, real estate, leased lines, steam colliers or any other property real or personal whatsoever, at all judicial sales, and to purchase the whole, or any part thereof, if deemed necessary by the Board, at private sale; to hold the property purchased, either in their name, or in the name of persons chosen by them from their number, for the purposes hereinafter named and to apply the securities deposited with them in satisfaction of any such bid according to their discretion.

Fifth.—That the said Board shall be the sole judge, when and whether, enough signatures of stockholders, bondholders, and other creditors, have been obtained to this agreement, to warrant them in carrying out the same, and shall have power, whenever they shall deem it proper, to abandon the said Plan, and in such case the stock, bonds, and claims deposited by the parties subscribing hereto, shall be returned to them, less their *pro rata* share of the expenses incurred. They may limit the time of acceptance of the foregoing Plan, by each and every class of stockholders, bondholders or other creditors, and they may extend such time in their discretion.

Sixth.—That if a satisfactory settlement with the creditors of the existing companies can be made, whereby the present franchises of The Philadelphia and Reading Railroad Company and the Philadelphia and Reading Coal and Iron Company can be preserved, and income bonds or other securities can be issued of the rank and value of those proposed to be issued under the Plan by the reorganized company or companies, the Board shall be authorized and empowered to cause the same to be executed and issued in lieu of the securities provided to be issued by the reorganized company or companies, and this power and authority may be exercised after the purchase of the property under foreclosure proceedings, if the Board shall be advised that the said

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property may still be lawfully restored to The Philadelphia and Reading Railroad Company and The Philadelphia and Reading Coal and Iron Company, and operated and managed by them as before said purchase.

The capital stock of the Philadelphia and Reading Coal and Iron Company, in case foreclosure of its property can be averted, and also such other securities as the Board may think essential to maintain the integrity of the system, shall be assigned to the Trustee under the new General Mortgage as additional security for the bonds to be issued thereunder, with such agreements as shall secure to the Voting Trustees herein constituted and to the new company, the right to vote upon the said shares, at any election of said corporation, or corporations.

And the said Board may procure such additional legislation as, in their discretion, may be necessary and convenient, and may organize any corporation or corporations, and designate the character and amount of the capitalization thereof, or may purchase any existing charter, or charters, for carrying out the purposes of this agreement and create any special trust or trusts to hold any portion of the property, and, if advisable, issue certificates of interest therein:—it being the purpose of this agreement to enable the Board to arrange the affairs of the companies in any way which they may find expedient in the event of an adjustment without a sale, or of the purchase of the whole property or only a part thereof, whether the sale or sales shall be under the General or any other mortgage or mortgages, or in any other manner which will vest a good title, provided that in making such arrangement they shall preserve the relative rights of creditors and stockholders as established by the Plan of Reorganization.

Seventh.—That the said Board may convey or procure to be conveyed, any property purchased, to the new company or companies, or to any trustee selected for the purpose according to the foregoing Plan of Reorganization, in consideration of the new bonds, stock, trust certificates or

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other securities and cash, and distribute and dispose of the same when received among the parties entitled thereto in accordance with the Plan.

Eighth.—That the amount to be bid at such sale or sales shall be in the discretion of the Board; and in case the said Board does not purchase the said properties, or every portion thereof, or if any of it should be sold to others, the said Board shall collect the dividend due on the securities held by them, out of the proceeds of such sale and distribute such dividends among the parties entitled thereto, less their *pro rata* of all expenses incurred hereunder.

And in case the said Board shall purchase none of said properties, or not sufficient in their judgment, on which to base a reorganization of said companies, they shall return all assessments paid hereunder less their *pro rata* share of expenses incurred, and in that event may resell any property bought by them, and distribute the net proceeds among the parties entitled thereto; or, if a sufficient number of the General Mortgage bonds shall be deposited under this Plan of Reorganization to make it expedient so to do, the Board shall be authorized and empowered to discontinue foreclosure proceedings under said mortgage and to assign and transfer the said bonds to the Trustee of the new four per cent. mortgage to be created by the reorganized company as security for the bonds to be issued thereunder: or if the principal and interest of any of the securities deposited hereunder shall be tendered prior to January 1st, 1887, the said Board are hereby authorized and empowered to transfer the same on receiving payment therefor, and distribute the proceeds, less expenses incurred hereunder, to the parties entitled thereto.

Ninth.—That the said Board may construe the foregoing Plan of Reorganization, and their construction of the same or of any part thereof shall be final; and they may supply defects and omissions in said Plan, necessary in their opinion to carry it out properly and effectively, and they

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shall be the judges of such necessity. They shall have all powers necessary to carry out the Plan in all respects, and for this purpose they may vote upon the stock surrendered to them, or upon the stock of the new company or companies, before it is distributed, or take any other action which any class of the depositing stockholders, or creditors could do, excepting that the said Board shall not voluntarily incur for depositing subscribers, any responsibilities for moneys except as mentioned in the foregoing Plan of Reorganization and this agreement. The said Board may employ counsel and agents and all necessary assistants and determine and allow them a reasonable compensation; and the selection of Messrs. Brown Brothers & Company and Messrs. Drexel & Co., by the said Board as their depositaries of the securities to be deposited and of the assessments to be respectively collected on the same, as herein provided, is hereby approved, ratified and confirmed. The said Board shall prescribe the form of the new securities, mortgages and certificates of stock. They shall have power to create all necessary trusts contemplated by the Plan of Reorganization, and to nominate and appoint the trustees to act thereunder, and take such steps and make such contracts and stipulations, as may be necessary to fulfill, organize, and carry them out, for the protection, preservation, and development of the property purchased by them. The said Board may procure the execution of the deed or deeds for the property purchased by them, and shall have the power to fix in every case the amounts they will bid, in whole, or in part, on the property.

Tenth.—That the said Board shall keep records of their proceedings. They shall not be personally liable in any case for the acts of each other, nor for their own, except in case of willful malfeasance, or gross negligence, nor shall they be personally liable for the acts of their agents, or employés. They shall have the power to add to their number, to fill vacancies and to act through agents, and to delegate any necessary authority, as well as discretion

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to such agents, and shall be allowed a reasonable compensation for their services hereunder.

Eleventh.—That the said Board shall have power to modify the said Plan of Reorganization, if in their judgment deemed necessary, but in case such changes or modifications shall be made, involving the relations of the several classes of creditors and stockholders as fixed by the Plan, a copy thereof shall be filed with the depositaries named in the Plan and notice given by advertisement for not less than twice a week for two successive weeks, in the newspapers mentioned in Article 19th. Depositors not objecting in writing within thirty days after the last notice of such modification, given under the terms hereof, shall be deemed to have assented thereto. Any depositor objecting within said time to such modification, may withdraw his stock, securities or claims, as well as any assessment already paid by him, upon his first paying his *pro rata* expenses incurred up to that time.

Twelfth.—That the said Board shall have power to take part in all legal proceedings, or to institute new ones, to take any action on behalf of any, or every class of the depositing subscribers, which that class might have taken as individuals or as a body; and to make such arrangements on behalf of any class of such depositing subscribers, as may be necessary to obtain judgment, or to facilitate the course of any litigation.

Thirteenth.—That the said Board shall have power at their discretion, to purchase at judicial or other sale, the stock, leases, property, or control in any way, of any, or all the roads, canals, other lines or corporations now operated by or connected with the Reading Railroad system, or that of the Coal and Iron Company, and to redeem any or all stocks and bonds, or other securities pledged for debts of the said two companies, and may issue stock of the new company to effect such purchase, or redemption. They

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shall have power at their discretion to settle all existing or future litigation with any line, canal, railroad, or other corporation forming such system, or with the owner or owners of any property connected therewith. They shall have power to petition the court to separate the property about to be sold into blocks or parcels, or to have it sold as an entirety, or in such lots as they may deem advantageous, and at such sale to buy the whole, or such parts thereof, as they may deem proper.

Fourteenth.—That the said Board, with the approval of the Voting Trustees named herein, shall have full power to make any contracts or arrangements for the consolidation and merger of any line, canal, or railroad, or any property whatsoever forming part of the Reading Railroad system, or owned or controlled by it, with the reorganized company or companies, and for this purpose to vote upon the stock of such new company or companies either in person or by proxy, and to ratify on behalf of the subscribing depositors, by voting or otherwise, any action of the Board of the present company, in voting stock of such lines or controlled companies, in favor of such lease, consolidation, or merger, and to make any necessary arrangements for the full or further security of the holders of the bonds of such leased lines.

Fifteenth.—That the said Board, with the approval of the Voting Trustees, shall have power to negotiate with all companies, corporations, or other persons, for running powers, terminal facilities, or any other conveniences necessary or desirable for the reorganized company or companies, or to make contracts with such other corporation or corporations binding upon such new companies. They shall have the power, with like approval of the Voting Trustees, while the property is in the hands of the purchasing committee, to make all necessary or convenient arrangements, binding the new company or companies, which the owners of such property, or the board of di-

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rectors of such new company or companies, could do in relation to the mode of operating or managing its road, including the running of its cars upon lines of other companies, and the cars of other companies upon its own; to make traffic and other contracts for the use in whole or in part of the tracks, lines, and terminal facilities owned or controlled by it, and generally, to make such contracts, stipulations, or arrangements, as will in their opinion, operate directly or indirectly to aid in the preservation of the property now constituting the Reading Railroad system; or to prevent or avoid opposition to, or interference with, a successful execution of the foregoing Plan of Reorganization, including any modification thereof duly adopted as above provided.

Sixteenth.—That the said Board may appoint an executive committee of five, to whom shall be delegated charge of the foreclosure proceedings and purchase of the property, the organization of the new company, and generally whatever may appertain to reconstruction under the Plan. And the action of the said Board in appointing the said Voting Trustees and the said Executive Committee mentioned in the hereinabove recited contract between themselves and the Syndicate and the hereinabove recited contracts between the said Board and Messrs. Brown Brothers & Co., and between the said Board and the Syndicate, and between the said Board and the said Messrs. Drexel & Co., including the mode of filling vacancies in the Board of Voting Trustees and Executive Committee, and whatever may be done by the said Board or the said Executive Committee under and by virtue of this agreement and of the said contracts, are hereby approved, ratified and confirmed.

Seventeenth.—That the accounts of the Executive Committee shall be filed with the Board, and those of the Board, including the amount of the remuneration of themselves and the Executive Committee, shall be filed with the Board of Directors of the reorganized railroad company within one

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year after its organization, and said Board shall thereupon be discharged. The said accounts when audited and approved by said Board of Directors, shall be final, binding, and conclusive upon all parties having any interest therein.

Eighteenth. —That the enumeration of specific powers hereby conferred shall not be construed to limit or restrict the general powers herein conferred: and the said board and their several committees may act by a majority in the transaction of business.

Nineteenth.—That all calls for the deposit of bonds and stocks, for the surrender of certificates, and all other notices made in accordance with the provisions hereof and of the various agreements recited herein, shall be inserted in the *Public Ledger* of Philadelphia, the New York *Herald*, and the London *Times*, and when so advertised shall be taken and considered as though personally served upon the subscribing parties hereto, and upon all parties becoming bound hereby by the acceptance of the provisions hereof, as of the respective dates of insertion thereof, and such publication shall be the only notice required to be given under the provisions of this agreement and the various agreements referred to herein.

Twentieth.—That this agreement shall be printed and copies thereof may be signed by the parties subscribing thereto, either singly or by as many as may be convenient to each paper, and that all of said papers so signed, shall be taken and deemed as constituting one original paper.

This agreement shall bind the said Board and their successors in office appointed in accordance herewith, and the subscribing depositors, their, and each of their heirs, executors, administrntors and assigns.

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In Witness Whereof, The said subscribers have hereunto signed their names or put their corporate seals, and have written opposite to their respective names or seals the amount of the stock, bonds, or other claims, held by them and the classification thereof.

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April 13-1886

ANDREWS & SONS,
BANKERS,
20 Nassau Street,
NEW YORK CITY.

ADDRESS

OF THE

General Mortgage Bondholders' Committee

TO

Holders of General Mortgage Bonds

OF THE

Philadelphia and Reading R. R. Co.

ALLEN, LANE & SCOTT, PRINTERS, PHILADELPHIA.

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ADDRESS

OF THE

General Mortgage Bondholders' Committee

TO

Holders of General Mortgage Bonds

OF THE

Philadelphia and Reading R. R. Co.

PHILADELPHIA:
ALLEN, LANE & SCOTT'S PRINTING HOUSE,
Nos. 229 and 231 South Fifth Street.
1886.

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TO THE HOLDERS OF THE GENERAL MORTGAGE BONDS OF THE PHILADELPHIA AND READING RAILROAD COMPANY:—

GENTLEMEN:—The undersigned, a Committee appointed at a meeting of General Mortgage Bondholders, called at the request of Messrs. E. D. Lockwood and John A. Wright, of the "Bartol" Committee, to advise with them as to their course in protecting your property, and further, to take a general supervision of your interests, would respectfully report:—

That the time has now come when a decision will have to be made as to the disposition of your bonds, and the position you will take in the reconstruction of the Reading Company.

Two plans for such reconstruction have been submitted: the first by a Syndicate of capitalists, and the second by the Board of Managers of the Railroad Company, through the President, Mr. Gowen.

In accordance with the object of our appointment, we lay before you our views as to these plans, and will add, at the close, such suggestions as to the basis of an equitable reconstruction of the bankrupt Company, as will satisfy the criticisms we feel bound to make.

THE SYNDICATE PLAN.

First.—THE CONTRACTING PARTIES.

The Plan of the Syndicate is based on a contract between a so-called "Board of Reconstruction Trustees," and certain

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capitalists, for the rehabilitation of the Reading Company. This Board assumes, as the basis of its power to enter into such contract, to have been "chosen with the concurrence of two committees of creditors and the Board of Managers, to represent the different classes interested." Again, it assumes to be acting "as a Board of Reconstruction Trustees for the creditors of the Philadelphia and Reading Railroad Company;" and again as "a Board of Reconstruction Trustees of the Philadelphia and Reading Railroad Company and of the Philadelphia and Reading Coal and Iron Company." The assumption of such broad powers to act for the creditors of the Philadelphia and Reading Railroad Company and for the Railroad and Coal Companies, should have a sure foundation, otherwise, it is a mere claim of power without authority. That you may not be deceived by this assumption of representative power, it will be well to understand, That the "Board" has no authority to represent either the Railroad or the Coal Companies; That as constituted, it is in direct opposition to the principles on which it was created; That in lieu of your interests being represented by a majority of such Board—they have been, and are, in a minority and your interests have not been cared for; That when the Board of Managers withdrew from any connection with the joint Bartol and Whelen Committees, their representatives in the Board of Trustees should in all fairness have also withdrawn; That the election by the Board of a gentleman to represent the foreign bondholders in the Board, whose interests were antagonistic to theirs and yours, was a breach of faith, as is now proven by his objection to the Syndicate Plan, that it too largely favors the General Mortgage, such election was protested against without avail by a minority of the Bartol Committee; That this Board has no power delegated to it by the Joint Committee to adopt any plan, without its being first approved by such Joint Committee; That it has no power to add to its number as it has done; and finally, That it has no power, arising from its assumed representative capacity, to make any contract with any party, which

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can carry with it any moral obligation on the part of any creditor to support it.

This "Board" can then only be considered as a body of gentlemen, associated together for their own purposes, and assuming, to carry out such purposes, representative power, to which it is in no proper sense entitled. Any other body of men would have had equal authority to have assumed a similar position.

The creditors of the Reading Company will, therefore, give no weight to the fact of such a party making a contract with any other party, but will judge of the Syndicate's Plan on its merits.

Second.—THE PLAN OF RECONSTRUCTION.

This plan is based on three principles: *First*, Reduction of fixed charges; *Second*, The payment of all claims, other than the mortgages which have precedence of the General Mortgage, by the junior security and shareholders; *Third*, The allotment of a first Preferred Stock for all assessments paid.

It is proper, in entering upon an analysis of this plan, to recognize the facts: That no Plan of Reconstruction can be expected to meet the approval of all the parties interested; That there must be a yielding of interests to ensure the greatest final success, and that mere picking flaws or quibbling over immaterial points, is neither financial wisdom nor prudence; That any proper plan should, as far as possible, be based on the equities involved, and that these equities in a problem so great as the reconstruction of the Reading Company, are very difficult of solution.

Yet, the recognition of the equities being acknowledged, any reconstruction should be also governed by the ability of a plan to place the property of the Company in a position to be the most useful to the community, and profitable to the creditors and owners.

Another point should be remembered, as well stated by the Trustees on page 3 of their Prospectus, "That the fact

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that the General Mortgage bondholders can take the property covered by that mortgage, pay the claims of all prior creditors, and receive some return for their capital, which is not the case with any junior class, determines beyond question, that the control of reorganization rests in a great measure with the General Mortgage." This fact, so clearly stated, must be the basis of any judicious plan, and the simplest expression of the relative status of all parties is, that while the General Mortgage Bondholders control the property of the bankrupt Company, they may agree, first, as a favor, to admit unfortunate holders of junior securities, and stock, to an interest in a new organization on certain conditions, and second, in accordance with a well-settled public opinion that such creditors and shareholders should be fairly treated in any plan and have some chance of regaining their losses by improved management of the property.

The proper tests of the Syndicate's Plan is thus provided.

(1.) Does it place the New Company in such financial position by reduction of fixed charges, that the property can be worked to the best advantage?

(2.) Does it justly and equitably treat, not only the General Mortgage holders, but also those of the Junior Securities and Stock?

Let us examine the Plan by these questions:—

The first query may be answered affirmatively. The policy of increasing the amount of the new General Mortgage to cover the objects named is undoubtedly prudent, and the power therein afforded, to borrow money to meet the financial wants of the Company for a few years, is a necessity for success.

An answer to the second query involves, First, the provisions of the plan as to the General Mortgage. It cannot be denied that whatever exchanges may be made, the General

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Mortgage Bondholders are entitled to the same security they now have. This clear right the Syndicate Plan violates. It proposes an exchange of $1000 six per cent. bond, with eighteen months accrued interest, for a bond of $1000 at four per cent., and $480 in a Preferred Stock; for bonds bearing seven per cent. interest, a bond of $1000 and $500 in Preferred Stock, such stock to draw interest at the rate of five per cent. if earned, to be non-cumulative, and without the security of a lien.

On page 5 of the Plan of Reorganization, under the heading of "The General Mortgage," it is provided that the new Mortgage Bonds shall be entitled to four per cent. interest, but in the first paragraph of the Plan, page 3, it is provided that the new General Mortgage shall bear interest at a rate "not exceeding four per cent.," which implies equal possibility of such rate being changed to less than four per cent. per annum. And then, in the sixth section, page 19, it is provided that if, in the event of reconstruction, and after sale under foreclosure shall have been had, it is lawful to reinstate the present Company, that the Board shall have power to issue "Income Bonds or other securities, of the rank and value of those proposed to be issued under the plan by the reorganized company."

In the eleventh section, page 23, the Board is also empowered "to modify" the Plan of Reorganization, giving thirty days' notice to depositors who may be dissatisfied with the changes to withdraw their stocks or securities after payment of their *pro rata* of expenses.

Taking these provisions together—what the holders of General Mortgage Bonds may be eventually asked to receive, would puzzle a sphinx. The objection to this treatment in the character of the securities to be received in exchange is evident. In this respect the Plan lacks definiteness, and its intention and operation are not clearly and squarely stated. The flexibility of a plan is one thing, involved construction another. The provision as to withdrawing stocks or bonds would in the majority of cases be impossible, for reasons that are very obvious.

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Further.—THE VALUE OF THE BONDS OF THE NEW MORTGAGE.

They will be part of a Mortgage for $66,578,300 ($100,000,000 less $33,421,700) adding $41,892,300 to the principal of the present General Mortgage which is $24,686,000, thereby increasing the interest that must be earned before its coupons can be paid, and dividing with such increase the security of the Coal Mortgage. Again—the new mortgage is not to cover all the property of the New Company, an exception being made as to the property now covered by the Income and First Series 5's and twenty-five per cent. of the Second Series 5's. The injustice of this provision will be hereafter discussed.

Again—the deduction of two and three per cent. in annual interest, and eighteen months accrued interest is placed on the same footing as the assessments paid by the holders of junior securities and stocks. This is manifestly unjust, and should not be submitted to by the General Mortgage holders. Their mortgage covers sufficient property to pay their claim in full—principal and interest—while the juniors have in fact little or no property of marketable value, all their claims to the contrary notwithstanding, they pay their assessments for the privilege of having an interest in the New Company. The position of the parties then is entirely different. If Preferred Stocks are to be issued—the first of such stocks should be protected by the security of the Mortgage, and be limited to the General Mortgage Bonds.

Again—the Preferred Stock that is proposed to be given is to be made subject to any number and to any amount of mortgages that may hereafter be placed on the property, the provision of limiting any increase of mortgage within five years beyond the $100,000,000 mortgage, affords but little protection.

And finally—even the chance for the Preferred Stock's receiving a dividend is put in the distance by an unwise introduction on page 4 of the Agreement, of a provision as to

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profits on properties now covered by the Income and First 5's. This is a safe means of providing that no dividend shall be paid on the Preferred Stock, because an injunction would prevent the payment of such dividend until the question of profits on such properties could be ascertained. Years might elapse before such a question could be settled. As the provision now stands, the profits arising from property covered by the General Mortgage would have first to be paid to the holders of the Income and First 5's, before they could be paid to the holders of the Preferred Stock. This brings up the objection made to the exception excluding the properties and leases now held by the Income and First 5's, from the lien of the new General Mortgage. The injustice of the two provisions favoring the Incomes and First 5's, will be evident when it is noted that the Income and Consolidated Stocks are to be protected by their lien on properties in advance of the General Mortgage and of the Preferred Stock, and that the General Mortgage creditors are to have no security by way of lien for their interest over the four per cent.

This is the greater wrong from the fact, that whatever profits may be derived from the principal portion of such properties will be dependent on and derived from the main line and properties whose earning power comes from the moneys received from the General and preceding mortgages. This part of the Plan directly attempts to protect the Income and First 5's at the cost of the General Mortgage.

This provision is objectionable because there is in it an implied obligation that the New Company must purchase or lease the properties under those mortgages which is of itself, a sufficient objection to its being part of any plan of reconstruction.

Again, These provisions do not meet the views of those they were intended to placate, and their presence in the Plan is therefore unnecessary. They should be eliminated, they are unwise, unjust, and dangerous to all interests, especially to those of the General Mortgage holders.

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Taken then as a whole, the treatment of the General Mortgage in the Plan, is illiberal, and inequitable, and should not be accepted.

Third.—THE PREFERRED STOCK.

In addition to what has been stated as to the issue of this stock, it may be well to notice further, the injustice of the principle on which it is formed. The same equity that would warrant the General Mortgage holders in objecting to having their Preferred Stock put in a common pot with all who pay assessments would justify the holders of the Income Bonds and First 5's in objecting to owners of claims inferior to them, and shareholders, having a representation in the Preferred Stock for their assessments. The principle already stated is correct, that each class of creditors and the share owners should stand on its own equities, and that all assessments should be considered as paid to save such class, and be represented in such class. There is no good reason why a shareholder who contributes ten dollars per share to secure an interest in the New Company should be placed on an equality with the General Mortgage holders, or have preference over other creditors of the Company such as the Income and Consolidated 5's. The stock of the present Company to-day has little but a speculative value, and the owner can well afford to pay the assessment, and receive therefor stock in the New Company. The plan of paying all assessments as Preferred Stock would seriously operate against the values of the Income and Consolidated Stocks.

But still more than this. It is not only putting ahead of these new stocks an amount of capital on which interest must be earned before such stocks could receive a dividend, but it places an indebtedness before them of over $9,000,000, which, in the event of another sale, must be paid before the holders of Income and Consolidated Stock could be paid one dollar.

In fact, this whole policy and method of issuing Preferred Stock is an error. It is increasing the capital account,

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when there has been no property added. Wisdom would have dictated the reduction of the capital account, instead of its increase.

Fourth.—INCOME AND FIRST 5's.

The holders of these bonds are entitled to their full equities. With the change in the constitution of the Preferred Stock, as recommended; that is, each interest paying assessment, receiving therefor stock in its own class, they would be placed in their equitable position to receive what profits might come to them in due order. The claim of the Income holders to any special profit from property under their mortgage, is amply answered by the fact that such property entails an annual loss to the Railroad Company of over $300,000; and as to the claim of the First 5's on certain leases, it may be said that if the holders of First 5's desire to take their security for their debt, there should be no objection on the part of the General Mortgage Bondholders or shareholders. The capital of the New Company would be reduced nearly $8,000,000; the amount of Preferred Stock would be decreased nearly $2.000,000, and the New Company would not be injured, for it will have three lines to compete for its business from Philadelphia to New York, viz., the Pennsylvania, the North Pennsylvania and Bound Brook, and a new line to Bound Brook which can be built for about $2,500,000.

It is not deemed necessary to enter any further into this controversy with the holders of the Incomes and First 5's, except to advise them to look carefully into the values of the leases, and the properties they cover, and they will find that they have been deceived as to the earning power of their properties, and that the profits that have been made, are mainly due to the business thrown on that road, and the facilities given them through their connection with the Reading system. Standing alone, they together would earn but little in excess of their fixed charges. The best interest of these parties will be conserved by joining with the Gen-

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eral Mortgage Bondholders in securing a proper plan for the reconstruction of the Reading Company.

Fifth.—THE ASSESSMENTS.

The assessments on the holders of the Juniors and Shares are fairly made; they might have been heavier without injustice. The amount of assessments to be received will readily cover the cash indebtedness coming before the General Mortgage, the purchase of some most valuable securities, the expenses of foreclosure, and the reorganization of the Company conducted on an economical scale.

Sixth.—THE VOTING POWER.

The clause providing for placing the voting power in the hands of a committee of responsible men, is not only just, but a necessity for the interests of all parties. As the creditors of the Company assume the responsibility of reconstructing its finances, and agree to give, for reasons already stated, the shareholders of the present Company an interest in the New Company, and as the shareholders have now nothing but prospective and speculative values, the creditors have every right to control the management until the property may be safely relegated to the care of the shareholders, when it is hoped the management will have developed a value for the stock that will lift it out of the control of a speculative market.

The only comment that can be made on the selection of such a committee is, that it should have been nominated by the General Mortgage Bondholders; but as the gentlemen named are unexceptionable, the matter is only alluded to, to show how the interests of the General Mortgage have been persistently ignored. To enable a new Board of Managers to select competent officials, to learn the property, to devise a policy for its management, to introduce necessary reforms, to bring it up to a level with first-class railroads, will require time. There must be a rest from the

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disturbances and losses that follow frequent changes of management.

An assurance of stability, as well as of ability, in the new management, will do much to establish confidence in and give credit and influence to the new corporation.

Summary.

The chief objections to the Plan of the Syndicate have now been stated and discussed. It will be clear to those interested, that its provisions fail to meet the demands of equity, justice, or good policy, to either of the three leading bodies of creditors, viz., the General Mortgage, the Income, and the First 5's.

The Machinery.

The machinery devised to carry into effect the Plan of the Syndicate is cumbersome and involved. Simplicity in the make up of an organization, is always to be desired. Any unnecessary red tape or division of power, leads to confusion, misunderstandings, and trouble. For executive success, a concentration of power in the fewest hands, is a necessity for efficiency. A good scheme may be seriously injured by a complicated machinery intended to give it effect. These common-places are especially applicable to the present Plan.

The condition of the Reading Company, the varied views of its creditors and owners, the failure of committees to arrive at any plan of reorganization, clearly indicated that a reconstruction of the Reading property could only be effected through a Syndicate which could command the capital, and public confidence, that might be required for the purpose.

The general expression of gratification by all parties (and by none more than by your Committee), when it was announced that Mr. Morgan of New York contemplated the

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formation of such an association of capitalists, is an evidence of the hopelessness of the case, and that this was the only remedy. The high public ground on which such a syndicate was to be established, was duly appreciated by the public. It was felt to be a fitting return to the country in which their money had been earned, and was highly honorable to Mr. Morgan and his associates.

So far, then, as the reconstruction of the Reading through the Syndicate is concerned, there can be no objection—but there are valid objections to the machinery the Syndicate has adopted for carrying out such reconstruction.

Instead of an association of bankers and others, who would have proposed to the creditors of the Reading a reconstruction of the affairs under some certain and definite plan, with certain provisions for their compensation, and invited the adhesion of all parties interested, and which would have involved but one party for the creditors to deal with, there are in this case four parties, in fact five—the Syndicate, the Executive Committee, the Bankers, the Trust Company, and the Board of Reconstruction Trustees. It is perfectly understood that the Reconstruction Trustees, who had utterly failed in producing any plan of reconstruction after months of hard work, and who were considered as well buried, were resurrected for the purpose of acting as a body, with which the Syndicate could make a contract, thereby throwing, if possible, the burden of the unacceptability of a plan on the Board, and reserving to the Syndicate the position of a party merely contracting to carry out the plan of the Board. This first error involves a division of power and duties which renders the whole plan cumbersome, difficult of comprehension, liable to misunderstanding, and provocative of legal disputes.

There is such a constant effort to protect the parties, comprising the different bodies, from responsibility, that the creditors have but little security as to anything they may do. The ultimate responsibility for the securities deposited is very uncertain and mixed; the possibilities of the Plan being carried out or failing; how much it may be changed

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for better or worse to the creditors; the chances of the General Mortgage being paid off, or of Income Bonds being substituted in the event of reconstruction without foreclosure—and many other such questions—seriously affect the adoption of the Plan. Such an extreme use of machinery and salvable provisions, is unknown in railway reconstruction.

But more serious objections to the Plan are to be found in the powers placed in the Board. The Board is to have absolute power over the whole property—over the securities as deposited—over the moneys as paid—over the purchase of properties—over the leased lines and floating debt—securities held by the Company, and everything in relation thereto. The thirteenth, fourteenth, and fifteenth paragraphs of the contract, on pages 23 and 24, are startling, and when these powers are considered in connection with the constitution of the Board, wherein the General Mortgage has practically no representation, and no representation whatever in the Executive Committee, and that the ruling interests represented in this Board and in this Executive Committee are known to be antagonistic to the General Mortgage, The General Mortgage Bondholders may well stop and inquire if these things can be so. When they find the facts to be as stated they certainly will unite with their Committee in objecting to the use of any such powers, because the Board are not competent judges of the values of properties, leases, or securities to the New Company. The possibility of being influenced by private interests or the interests of those whom they may represent, should cause the members of the Board to hesitate at accepting or acting under such powers.

They are assuming the powers and prerogatives of the President and Managers of the New Company. To fairly judge of the many questions involved in such powers requires extensive knowledge, and practical and professional experience.

The General Mortgage Bondholders may well take alarm at this assumption of power to handicap the New Company

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by leases, bargains, and contracts which may seriously affect the success of the New Company, and the value of its bonds and stock, should they otherwise be willing to accept the Plan.

The General Mortgage Bondholders may find a repetition of one of the causes which has heretofore seriously affected the value of their property, viz., the excessive rentals on leases, which became a lien on profits in advance of the General Mortgage. The power of the Board of Trustees, or of a Purchasing Committee, should be limited to the purchase of the plant—the real estate, fixtures and personal property. The stock of the old Company, being under control of the New Company, will hold leases long enough to give the Managers thereof time to make new contracts with connecting lines, so that the business of the road will not suffer.

The Syndicate should recognize the force of these objections, and should hesitate at conferring such powers on the Board, which it did not have in its original inception, and which should not be given it. It is a responsibility the Syndicate should hesitate to assume, for the existence of such powers will be accepted as of its creation, and for its use. Public opinion, as well as all interested parties, will hold the Syndicate responsible.

The danger from the misuse of these powers, thus granted to the Board, might be exemplified and discussed at length. We but suggest this subject for your individual examination.

The Cost.

The charges of the Syndicate.

That the Syndicate should be liberally paid for the use of its money and any risk it may incur, is entirely in harmony with its high public spirit in aiding and restoring a valuable property to usefulness. And while there seems no like-

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lihood that any such sum as $15,000,000 could be used, and if at all, but for a few months, the charge of five per cent. commission, and interest at six per cent., may prove to be very onerous. The assessments should and would provide all the moneys required, if reasonable time be given to pay them; and under a proper plan the assents would be so nearly unanimous that but little money would have to be advanced to cover distribution after a sale of property. At all events, the charge of a bonus of $750,000 is an extremely liberal compensation for any services that can be rendered outside the patriotic ground assumed by the Syndicate.

There is, then, no excuse or reason for giving the Syndicate the right (as by paragraph 2, page 11) to be substituted in place of any stockholder or creditor who may decline or fail to accept its plans. This right is extended by section 3, page 17, to those who may in any respect fail, after acceptance, to comply with any part of the agreement. This provision deserves careful consideration. It pre-supposes a value in these options, or the section would not have been introduced. The assertion needs no proof that the New Company is entitled to whatever profits may be made through the creating or issuing of any shares or securities, in reconstruction, in addition to those taken by *bona fide* parties, and in exchange for claims had against the bankrupt Company. To the New Company it is a business operation, and will be worth to its treasury whatever of profit there may be in the transaction. In the hands of others the power to purchase such options at assessment prices, at once opens a speculative value, which, while it might and doubtless will prove very profitable to the purchasers, will demoralize values, and in the end, affect the standing and value of the securities of the Company.

The assessments levied upon some $73,000,000 of capital, omitting the Deferred Incomes and the General Mortgage, amount to nearly $12,000,000, or more than sixteen per cent. of the principal. There must be under most favorable circumstances a number of options that will be forfeited, and though the percentage of the whole may be small, yet

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they will involve a large amount of money. It may be safely assumed that all the junior securities and stocks of the New Company will be worth much more than their present value, and the assessment added. If they do not exceed these figures, it is very evident that the margin of the profits will be large for the risk.

It will not be amiss to remind the Syndicate that any closely limited time for the acceptance of the Plan will be urged against it as tending to prevent parties from assenting, who may have difficulty either in getting possession of securities, in obtaining legal authority to subscribe, or in raising the assessment money, and thereby increase the number of options of which it can get the benefit. It cannot be well for the Syndicate to expose itself to such imputations, however undeserved.

Your Committee deem this part of the contract totally indefensible. If the $750,000 is not bonus enough, increase it, but let the amount to be paid the Syndicate be fixed and determined. Neither can the Syndicate, in this case, plead a contract, and throw the responsibility on the Board of Trustees, for the General Mortgage holders will thoroughly understand the relation they sustain to each other.

There are various other charges and expenses to be borne by subscribers to this plan of the Syndicate. The Bankers must be paid a very large amount of money, and in certain events the creditors and shareholders will have to pay their *pro rata* of the expenses. There is no indication on what basis these expenses are to be founded. Far better to have fixed the charges, and then all parties would know what obligations they were incurring. There will be hesitation in accepting the Syndicate's plan at this point, when the nature and amount of possible expenses is so indefinite.

Then each member of the Board of Reconstruction Trustees, numbering nine, and the Executive Committee, five, are to be paid, the amount to be determined by themselves, and audited by a board virtually of its own creation. It is entirely unusual to make payments to so many. There can be no objection to the payment of an Executive committee,

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though many will think such compensation should come out of the bonus paid to the Syndicate.

Your Committee urge the General Mortgage Bondholders and especially those who hold the Bonds in a fiduciary capacity, to submit the Syndicate's Plan to their respective counsel for their advice, as to the degree of safety there may be in signing such an agreement.

Your Committee has now noticed the principal objections to the Plan of the Syndicate, which may be condensed:—

First.—That the Plan is unjust to the General Mortgage Bondholders.

Second.—That the Income and First 5's are inequitably treated.

Third.—That the machinery by which the Plan is to be put into operation is unnecessarily cumbersome, and partakes largely of the characteristics of an uncertain and indefinite agreement.

Fourth.—That authority is conferred upon the Board which should be reserved for the Direction of the new Company.

Fifth.—That the reorganization will be unduly expensive.

Sixth.—That it transfers to the Syndicate a means of profit in the options which should be reserved for the benefit of the new Company.

Seventh.—That the reserved powers to change any part of the Plan, and the uncertainties connected with the settlements under it, involve risks which should not be accepted by any creditor of the Company.

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MR. GOWEN'S PLAN.

Your Committee regret that it has not been furnished with a copy of Mr. Gowen's perfected Plan for the re-establishment of the Reading Company on a solvent basis; but as he gives the principles on which it is grounded in his circular of March 23d, 1886, a reference to it may be sufficient to develop wherein and how your interests will be affected.

Mr. Gowen proposes to pay off the General Mortgage Bonds in full, principal and interest. When this is done there will, of course, be an end to your connection with the Company as holders of such bonds, but your interest in his Plan comes in just at this point, and you will ask us to discuss it, in so far as relates to the probability of his success in raising the money to pay your bonds.

First.—Mr. Gowen's chief object seems to have been to make the junior creditors provide the cash required to pay off Receivers' Certificates, floating debt, &c., for the benefit of the debtors, the shareholders, by the sale of the new Consolidated 4's. It is a new and a very false idea, even in railway morals, to force the creditors of a company to take all the risk and advance all the money required to make good the property of a bankrupt, without any money contribution on the part of such bankrupt, and should the property be restored to a solvent condition then to hand it over to the control of the debtor, who had twice before brought it into bankruptcy.

Second.—The Plan proposes to reorganize the finances of the Reading without forcible foreclosure; a gentle pressure is to be used, with the distinct understanding that no one is to be injured. There seems to be but one way in which this can be done, viz., the purchase by friendly parties of all the securities below the General Mortgage. What the chances are of such a purchase and sale you can

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judge as accurately as your Committee, who think the contingencies so remote as to be unworthy of serious consideration.

Third.—If the money should be raised to pay off the General Mortgage, the Junior security holders would scarcely accept a bond at four per cent. when the plan of the Syndicate offers them five per cent. The offer of the security of a mortgage under such circumstances, would be of little benefit, and the value of a cumulative bond is not much, when the uncertainties of its interest being earned, and the probability of another bankruptcy, are considered.

Fourth.—The placing of mortgages to secure the First and Second Preference Income Bonds will prevent the company from raising money at reasonable rates for its needed and future improvements, the result of which would be the speedy return to the heretofore ruinous policy of borrowing money on securities held by the Company, and the pledge of its own securities at ruinous rates and amounts. The re-established Company would be back in Receivers' hands within a few years.

Fifth.—While the Plan proposes to reduce fixed charges by reducing interest on the securities of the Company, it does not propose to reduce or change the terms of the leased roads, which, under present conditions of business and traffic, are very onerous. The main line and connections should be considered as one property, each contributing its share to a common purse, from which should be paid as nearly equal rates for the use of borrowed stock and capital as may be found possible. Such a reconstruction of leased line contracts cannot be made under ordinary circumstances. The pressure of an absolutely new deal, offers the only way by which new and equitable contracts can be secured.

It is not necessary to further discuss Mr. Gowen's Plan. There are in it so many points of weakness, that its failure seems inevitable.

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Having thus fairly analyzed the two plans that are before the creditors of the Reading Company, and not desiring to be classed with those who, while ready to destroy, cannot build up, we indicate, as promised, the general features of a plan which seems to us to embrace the equities of the case, and a means of raising the required money to place the property of the Reading Company in a position of credit and value to all parties in interest. It embraces a concession by the General Mortgage Bondholders of some of their inherent rights and equities.

1st. A sale under foreclosure is inevitable—all other suggestions are illusory.

2d. The general scheme, as in both plans, of a new mortgage (General or New Consolidated) of $100,000,000, and its application as recommended in the plan of the Syndicate.

3d. The exchange of present General Mortgage Bonds, for a new four per cent. bond and a First Preferred Stock, as provided in the plan of the Syndicate, but limited to the General Mortgage holders.

4th. Adopt the assessments of Syndicate plans, and the grouping of interests, and give to the Income and First 5's a Second Preferred Stock, to represent their assessments, and their principal and interest due, and so on to the next group, a Third Preferred Stock, and to the shareholders additional stock to represent their assessment.

If the Syndicate will modify its plan to suit these suggestions, and sunder all relations with any board of trustees or committee now existing, and simplify the agreements in accordance with the principles hereinbefore suggested, there should be no difficulty in carrying through such modified plan.

While the question as to the adoption of a plan is being considered it is our duty to inform you, that your interests in the courts are not being protected, and unless you are represented they will certainly suffer. There are now pending before the Master, questions as to the profits and distribution thereof, arising from the lease of the North Pennsylvania Railroad, the Bound Brook Railroad, and the

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Schuylkill Navigation Company, the issuing of Receivers' Certificates for the purchase of additional engines and cars, the payment of interest on the floating debt and scrip, all of which involve the possible loss of hundreds of thousands of dollars annually to holders of General Mortgage Bonds. Other questions are liable to be sprung at any moment.

Then, too, there is the necessity of pushing the suit in your interest for foreclosure. To look after these matters requires money, and the Committee has adopted a resolution requesting bondholders to contribute one dollar per bond to a fund, to be used for these purposes. Unless it is done serious loss will inevitably result.

Finally, the Committee recognizes the difficulties that have so far existed in obtaining an agreement of the creditors and shareholders of the Reading Companies to any plan. It is not now necessary to examine into the cause of such differences of opinion. But the Committee do feel that with the plans of the Syndicate, and the outline of that of Mr. Gowen, before all parties, and with such light as this report may shed upon the questions involved, that some definite plan can be adopted which will more nearly approximate the equities in the case. A general public opinion will have been formed, and your Committee will cheerfully endeavor to forward any plan which properly protects your interests. That an immediate reconstruction of the Reading Company is imperatively needed for the preservation of its property is undoubted. The value of the securities is rapidly decreasing, by added indebtedness which must be met, by deterioration of property and plant, by the inability and failure of its management to bring up its plant to meet the advanced railway economies in transportation, and in many other directions.

This same public opinion will not hesitate to express its judgment on any efforts that may be made by any committee, trustees, boards of managers, or individuals, to obstruct or hinder a settlement of Reading troubles. Any such body, person, or persons so acting, will be justly regarded as wilful destroyers of values, and as working for

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the disintegration of a great property, whatever their professions may be, and as enemies as well of private interests as of the public welfare.

That the Committee may obtain an expression of the opinion of the General Mortgage Bondholders on the questions discussed in this report, and how far these views meet their approval, it is desired that you communicate such opinion to the chairman of this Committee without delay be your holding large or small. If the answers be favorable, the Committee will heartily continue its efforts to protect your interests. If otherwise, it will be as gladly relieved from a duty, that has become onerous as well as responsible.

Respectfully submitted, &c.,

E. DUNBAR LOCKWOOD, *Chairman*,
JOHN A. WRIGHT,
T. MORRIS PEROT,
A. DUTENHOFER,
FRANCIS A. LEWIS,
E. W. BAILEY,

Committee of General Mortgage Bondholders.

PHILADELPHIA, April 13th, 1886.

Address of Chairman of Committee,
251 South Third Street, Philadelphia, Pa.

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Declared Operative Oct. 18

HARVEY FISK & SONS,
BANKERS,
23 Nassau Street,
NEW YORK CITY.

PLAN OF REORGANIZATION

OF THE

Philadelphia and Reading Railroad Co.

AND AFFILIATED COMPANIES.

AS AMENDED DECEMBER 14TH, 1886.

ALLEN, LANE & SCOTT, PRINTERS, PHILADELPHIA.

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PLAN OF REORGANIZATION

OF THE

Philadelphia & Reading R. R. Co.

AND AFFILIATED COMPANIES.

REORGANIZATION WITHOUT FORECLOSURE.

The company will make the following issues:—

A.

$100,000,000 in 70 year New General Mortgage 4 per cent. bonds, secured by a mortgage upon the railroads, leased lines, rolling stock, ships, boats, real estate, and franchises of the company, now or hereafter acquired, and the coal lands and other real estate, plant, and leasehold estates, now or hereafter acquired, of the Philadelphia and Reading Coal and Iron Company, to be executed to
of the city of Philadelphia as trustee, bearing interest at the rate of 4 per cent. per annum, free of taxes, payable semi-annually or quarterly as may be hereafter determined.

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Of this issue there will be reserved for the payment

Of bonds secured by mortgages prior to the Consolidated Mortgage of 1871,		$5,246,700
Of bonds secured by Consolidated Mortgage of 1871,		18,811,000
" " " " Improvement " " 1873,		9,364,000
[Bonds to the amount of $3,140,000, of the said Improvement Mortgage, are now subject to be drawn under the provisions of the Sinking Fund.]		
		$33,421,700
For the settlement, purchase, or exchange of the principal of outstanding General Mortgage bonds,		24,681,000
To take up outstanding General Mortgage Sterling Scrip and Coupons,	$1,697,220	
For exchange or redemption of existing bonds and mortgages on real estate,	2,100,000	
To cover advances made in paying four per cent. interest per annum during three years, if reorganization be not sooner effected, on certificates issued to holders of General Mortgage bonds depositing under the plan,	3,000,000	
		6,797,220
[Any balance not used of the above $6,797,220 of bonds after the fulfillment of the above specified purposes may be used for any purpose which the company may desire.]		
To take up the shares or bonds of leased or controlled lines now belonging to the Reading system, which will thereupon be made subject to the lien of this mortgage, but so as not to interfere with the right to merge said leased or controlled lines. In case the bonds reserved to take up said securities of leased or controlled lines have not been used for that purpose within ten years from the date of reorganization, the company shall then have the right to use the same for betterments, equipment, and other after-acquired property,		15,000,000
For exchange or purchase of Divisional Mortgages of The Philadelphia and Reading Coal and Iron Company, which when acquired shall be deposited as security for this mortgage,		10,000,000
		$89,899,920
Leaving as a reserve for betterments, equipment, and other after-acquired property,	$3,600,080	
To redeem collaterals,	3,500,000	
And for working capital,	3,000,000	
		10,100,080
		$100,000,000

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Until the final retirement and satisfaction of the present Income Mortgage and Consolidated 5 per cent. Mortgage, this issue will be protected by a deposit with the said trustee, of all the present Improvement, and General Mortgage Bonds of the Railroad Company and Divisional Mortgages of the Coal and Iron Company surrendered, retired, or acquired under this plan, or of respectively equal amounts of first series Five per cent. Consolidated Mortgage Bonds, to be issued in lieu of any or all thereof.

The principal and interest of this issue will be payable in gold coin of the United States of America of standard weight and fineness, free of all Federal, State, and municipal taxes, and the interest will be payable at such times and places as may be hereafter determined.

The bonds of this issue will be in the denominations of $100,000, $10,000, and $1000, and may be either coupon or registered on the books of the company in Philadelphia, with the privilege to the holders of the registered bonds to have them registered for payment of interest in New York or London.

B.

An issue of 70 year First Preference, Non-Cumulative 5 per cent. Income Mortgage Bonds, secured by a mortgage upon above property but subordinate in lien to that given to secure issue A, bearing non-cumulative interest from June 1st, 1887, at 5 per cent. per annum, payable only out of earnings available for the purpose up to 5 per cent. per annum, after providing for interest on issue A, and all other fixed charges.

To be issued as follows:—

For cash subscriptions, ...	$12,463,942
In case the General Mortgage Bonds are not paid off or purchased before July 1st, 1888, then as compensation for reduction of rate of interest on General Mortgage Bonds and accrued interest, ...	11,946,880
Total, ...	$24,410,822

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528.

If the General Mortgage Bonds are so paid off or purchased, the bonds of this issue intended to be used for their account may be used by the company for any other purpose.

C.

An issue of 70 year Second Preference Non-Cumulative 5 per cent. Income Mortgage Bonds, secured by a mortgage upon above property, but subordinate in lien to that given to secure issue B, bearing non-cumulative interest from June 1st, 1887, at 5 per cent. per annum, payable only out of earnings available for the purpose up to 5 per cent. per annum, after providing for interest on issue A, and all other fixed charges and for interest on issue B.

To be issued as follows:—

In exchange for Income Mortgage Bonds or Convertible Adjustment Scrip and Coupons to May 31st, 1887, ...	$12,158,098*
Debenture and Guarantee Scrip and accrued interest to May 31st, 1887, ...	707,288
1st Series Fives and accrued interest to May 31st, 1887, ...	8,981,487
Fifty per cent. of 2d Series Fives and accrued interest to May 31st, 1887, ...	4,293,645
[NOTE.—The remaining fifty per cent. of 2d Series Fives, are provided for in issue D.]	
Total, ...	$26,140,518

D.

An issue of 70 year Third Preference, Non-Cumulative 5 per cent. Income Mortgage Bonds, secured by mortgage upon above property, but subordinate in lien to that given to secure issue C, bearing non-cumulative interest from June 1st, 1887, at 5 per cent. per annum, payable only out of earnings available for the purpose up to 5 per cent. per annum, after providing

* In this Plan, all bonds outstanding, including those pledged as collateral, are included in the amounts named.

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for interest on issue A and all other fixed charges, and for interest on issue B, and for interest on issue C.

To be issued as follows:—

In exchange for 50 per cent. 2d Series 5's, and accrued interest to May 31st, 1887,	$4,293,645
Convertible 7's and accrued interest to May 31st, 1887,	7,662,362
Debenture Bonds Railroad Company and accrued interest to May 31st, 1887,	792,551
Debenture Bonds Coal and Iron Company and accrued interest to May 31st, 1887,	1,386,308
Preferred Stock at $55 per share,	821,150
Total,	$14,956,016

All Third Preference Bonds issued in exchange for Convertible Bonds will have the right to be converted into common stock of the company.

The company shall have the power reserved to it at any time to increase this issue for value, subject, however, to the approval of the Voting Trust, if such increase be made within five years after reorganization.

Certificates for fractional amounts of $1000 of any of the bonds of the foregoing issues will be issued, exchangeable into bonds of the issue into which they are to be converted on presentation in sums of $1000.

The fixed amounts of the foregoing issues are assumed as the proper amounts required for the conversion of securities against which they are to be issued, and may be increased, decreased and varied in case of errors in computation.

Rentals and Guarantees.

It is proposed to reduce the aggregate of rentals and guarantees (exclusive of the Central Railroad Company of New Jersey, the Schuylkill Navigation Company, and the Susquehanna Canal Company), to an annual charge of less than $2,350,000 by direct negotiations with the companies affected

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by such reduction, and to deal directly with the three companies above named upon the basis of a continuance of their respective leases at rentals involving no fixed liability beyond the earning power of the leased line, or a surrender of the said leases and the cancellation of the traffic agreement of the Schuylkill Navigation Company for a consideration, the said companies, in case of surrender, to release all arrears of rent and to convey all real estate in use by the railroad company for railroad purposes, and to procure the release of the guarantees of the Philadelphia and Reading Railroad Company upon their several bonds or obligations.

Receivers' Certificates, Secured Floating Debt, &c.

Receivers' Certificates, secured floating debt, expenses of reorganization, and other indebtedness of like character, will be adjusted, under the direction and at the discretion of, the Board of Reconstruction Trustees.

General Mortgage.

The Company shall have the privilege of paying the General Mortgage Bonds, or causing them to be purchased at par and accrued interest until July 1st, 1888.

Interest at 4 per cent. per annum, will be paid to the bondholders semi-annually in the *interim*, and the interest so paid, will be deducted upon payment, or purchase of the bonds; and upon such payment or purchase, the $3,000,000 of bonds reserved to cover advances of interest, on certificates issued to depositors of General Mortgage Bonds, may be used by the company to provide for accrued interest, or for other purposes.

If the bonds are not so paid, or purchased on or before July 1st, 1888, the holders of each $1000 General Mortgage Bond with overdue coupons, being those payable January 1st, 1885, and following, depositing the same with Messrs. Drexel & Co., to be held and used for the purposes of reorganization under this Plan, will be entitled to receive from the company through

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Messrs. Drexel & Co., upon reorganization under this Plan, the following settlement:—

A four per cent. new General Mortgage Bond,	$1,000
First Preference Income Mortgage Bond,	480
	$1,480

Which is issued upon the following basis of settlement:—

Principal of bonds,		$1,000 00
Three coupons maturing January 1st, 1885, July 1st, 1885, January 1st, 1886,		90 00
		$1,090 00
Interest at six per cent. per annum for the period of three years after January 1st, 1886 (coupon of July 1st, 1886), to January 1st, 1889,	$180 00	
Less three years' interest on certificates to be paid by Drexel & Co.,	120 00	60 00
		$1,150 00
As compensation for the reduction of the rate of interest,		330 00
		$1,480 00

To holders of existing seven per cent. General Mortgage bonds $500 First Preference Income Mortgage Bonds instead of $480 will be issued. If reorganization can be effected and new securities delivered prior to January 1st, 1889, interest is to be adjusted to date of settlement.

In case a reorganization shall not be effected in accordance with this Plan, either without or after foreclosure, bonds and coupons of a like amount and kind deposited with Messrs. Drexel & Co. will be returned by them to the respective holders of the certificates of deposit, upon the surrender of said certificate and the repayment of the amount of the coupons actually paid on each certificate, with interest at four per cent. thereon to date of surrender, and their *pro rata* of the expenses, in which case, such *pro rata* of the expenses to be paid is not to exceed two dollars for each bond of $1000 deposited, and is to include only actual disbursements for printing, advertising, and other necessary outlays under the Plan, not including in such case any compensation to the syndicate, trustee, or counsel.

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Income Mortgage Bonds.

The holder of each Bond of $1000, with overdue coupons from and including that of June 1st, 1884, on subscribing $100 in cash and surrender of Bond will receive

In First Preference Income Mortgage Bonds, ...	$100
" Second Preference Income Mortgage Bonds for Exchange of Bond and accrued interest to May 31st, 1887,	1,245
Total, ...	$1,345

Convertible Adjustment Scrip.

The holder of each $1000 of Scrip, with overdue coupons from and including that of July 1st, 1884, on subscribing $100 cash and surrender of Bond will receive

In First Preference Income Mortgage Bonds, ...	$100
" Second " " " " for Exchange of Bond and accrued interest to May 31st, 1887, ...	1,205
Total, ...	$1,305

Debenture and Guarantee Scrip.

The holder of each $1000 of Scrip, with overdue interest from and including that due July 1st, 1884, on subscribing $100 in cash and surrender of Bond will receive

In First Preference Income Mortgage Bonds, ...	$100
" Second " " " " for Exchange of Bond and accrued interest to May 31st, 1887, ...	1,205
Total, ...	$1,305

First Series 5 per cent. Consolidated Mortgage Bonds.

The holder of each Bond of $1000, with overdue coupons from and including that of November 1st, 1884, on subscribing $100 in cash and surrender of Bond will receive

In First Preference Income Mortgage Bonds, . .	$100 00
" Second " " " " for Exchange of Bond and accrued interest to May 31st, 1887, ...	1,154 16⅔
Total, ...	$1,254 16⅔

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Second Series 5 per cent. Consolidated Mortgage Bonds.

The holder of each Bond of $1000, with overdue coupons from and including that of August 1st, 1884, on subscribing $150 in cash and surrender of Bond will receive

In First Preference Income Mortgage Bonds, ...	$150 00
In Second Preference Income Mortgage Bonds for Exchange of 50 per cent. of Bond and accrued interest on said 50 per cent. to May 31st, 1887, ...	583 33⅓
In Third Preference Bonds for Exchange of 50 per cent. of Bond and accrued interest on said 50 per cent. to May 31st, 1887, ...	583 33⅓
Total, ...	$1,316 66⅔

Convertible Bonds of the Railroad Company.

The holder of each Bond of $1000 with overdue coupons from and including that of July 1st, 1884, or July 1st, 1885, on subscribing $150 in cash and surrender of Bond will receive

	For Bonds with July 1st, 1884, coupon attached.	For Bonds with July 1st, 1885, coupon attached.
In First Preference Income Mortgage Bonds,	$150 00	$150 00
In Third Preference Income Mortgage Bonds for exchange of Bond and accrued interest to May 31st, 1887, ...	1,239 16⅔	1,169 16⅔
Total, ...	$1,389 16⅔	$1,319 16⅔

Debenture Bonds of the Railroad Company.

The holder of each Bond of $1000 with overdue coupons from and including that of July 1st, 1884, or Nov. 1st, 1884, on subscribing $150 in cash and surrender of Bond, will receive

	For Bonds with July 1st, 1884, coupon attached.	For Bonds with November 1st, 1884, coupon attached.
In First Preference Income Mortgage Bonds, .	$150	$150
In Third Preference Bonds for Exchange of Bond and accrued interest to May 31st, 1887,	1,205	1,185
Total, ...	$1,355	$1,335

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Debenture Bonds of the Coal and Iron Company.

The holder of each Bond of $1000 with overdue coupons from and including that of September 1st, 1884, on subscribing $150 in cash and surrender of Bond, will receive

In First Preference Income Mortgage Bonds, ...	$150 00
In Third Preference Bonds for Exchange of Bond and accrued interest to May 31st, 1887, ...	1,227 50
Total, ...	$1,377 50

Detached Coupons.

All detached overdue coupons of any of the Bonds hereinabove named on pages 6 to 11 inclusive, will be convertible at par into the respective Bonds at par, into which, if not detached, they would be convertible under this plan.

Unsecured Claims.

Any unsecured claims or obligations (duly proven) may at the discretion of the Reconstruction Trustees receive the recognition accorded to Debenture Bonds.

Preferred Stock.

Holders will be entitled to subscribe $10 in cash for each share held, and on deposit of the shares in the voting trust herein provided for will receive for such subscription

In First Preference Bonds, ... $10

and in consideration of the surrender of the shares shall receive Third Preference Income Mortgage Bonds for said shares at $55 per share.

Common Stock.

Shareholders will be entitled to subscribe $10 in cash for each share held, and on deposit of their shares in the voting trust herein provided for will receive for such subscription

In First Preference Bonds, ... $10

and certificates of interest in the voting trust equivalent to the shares surrendered by the depositor.

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Deferred Income Bonds.

Each holder of $1000 at par (or twenty Bonds of $50 each) will be entitled to subscribe $25 in cash, and on deposit of his bond for stamping will receive for such subscription

In First Preference Bonds, ... $25

and retain holding of Deferred Income Bonds stamped as assenting to this plan.

Scrip to bearer in amounts of $1000, and certificates for fractions thereof, convertible in sums of $1000 into like scrip, will be issued against all present securities deposited for exchange, exchangeable into the definitive bonds when the same are ready.

The deposit of the General Mortgage Bonds is to be made with Drexel & Co., and of all securities junior to the General Mortgage is to be made with, and the payment of all cash subscriptions thereon is to be made to, Messrs. Brown Bros. & Co.

In case a reorganization shall not be effected in accordance with this Plan, either without or after foreclosure, securities of a like amount and kind, deposited with Messrs. Brown Bros., will be returned by them to the respective holders of the certificates of deposit, together with the cash subscriptions paid thereon upon the surrender of said certificates, less their *pro rata* of the expenses, as provided in the agreement hereafter mentioned.

For the protection of the creditor class assenting hereto, the Stock of the reorganized company or companies shall be vested in John Lowber Welsh, J. Pierpont Morgan, John Wanamaker, and Austin Corbin, who shall choose a fifth trustee, or their successors, as Trustees, to be held and voted upon for five years from the date of reorganization. For the stock certificates thus vested in said Trustees, corresponding marketable certificates shall be issued. In case of the death, retirement, or refusal to act of either John Lowber Welsh, or J. Pierpont Morgan, his place shall be filled by

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the Syndicate, of John Wanamaker, or Austin Corbin, by the Board of Reconstruction Trustees, and of the fifth trustee by the four remaining Trustees.

All securities must be deposited, so that they may be used by the Reconstruction Trustees, in any manner to promote the Plan of Reorganization by foreclosure, in case of the non-success of the Plan of Reorganization without foreclosure.

All expenses, commissions, and charges incurred either in reorganization without foreclosure or in reorganization by foreclosure will be paid by the company.

The Agreement and Plan issued under date of March 22d, 1886, have been modified in the foregoing and following particulars:—

The Board of Reconstruction Trustees has been enlarged to thirteen members by the addition of Alfred Sully, Robert K. Dow, John Wanamaker, and Beauveau Borie; and the Executive Committee has been enlarged to six members by the addition of Alfred Sully:—

The Voting Trustees now consist of John Lowber Welsh, J. Pierpont Morgan, John Wanamaker, Austin Corbin, and a fifth trustee to be chosen by the said four.

The Syndicate Capital has been enlarged to $20,000,000 with a corresponding increase of compensation:—

The right is reserved to pay off or purchase the General Mortgage Bonds, principal and interest, on or before July 1st, 1888:—

In case of reorganization without foreclosure, the Second Preference Income Mortgage Bonds above mentioned are to be substituted for Income and Consolidated Stock:—

Sixty days are to be given security holders to accept the provisions of this Plan, and no foreclosure shall take place provided security holders sufficient in amount to satisfy the Reconstruction Trustees accept the provisions of the Plan within that time:—

Non-acceptance of this plan by holders of securities within sixty days from the date named in the notice to be given, will exclude such holders from all participation in the reorganiza-

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tion which will then be brought about by immediate foreclosure, and only for the benefit of those who have deposited their securities:—

If the acceptance of security holders sufficient in amount to satisfy the Reconstruction Trustees is not secured within the said sixty days, then reorganization will take place by foreclosure, and only for the benefit of those who have previously accepted this Plan, *provided* that security holders sufficient in amount to satisfy the Reconstruction Trustees have deposited their securities under this Plan.

By the acceptance of the certificates of deposit to be issued respectively by Drexel & Co. and Brown Brothers & Co., the parties respectively depositing their stock, bonds, and other obligations become parties to the said agreement of March 22d, 1886, as now modified, between the Reconstruction Trustees and the stockholders and bondholders of the Philadelphia and Reading Railroad Company and affiliated companies, with the same force and effect as if they had severally affixed their signatures and seals to the said agreement and this Plan, and copies of the said agreement and of this Plan may be had upon application at the time of deposit.

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Estimated Capitalization after Proposed Conversions under the Plan.

(Computing Interest to May 31st, 1887.)

			Capital.	Annual Charges
Prior Mortgage Loans,			$33,421,700	$2,137,607
New General Mortgage Bonds to be issued:				
For Real Estate Loans,	$2,100,000			
" General Mortgage Scrip,	1,697,220			
" P. & R. Coal and Iron Co. Mortgages,	12,186,000			
" Car Trusts,	2,222,000			
" outstanding General Mortgage Bonds,	24,681,000			
To cover advances of interest at four per cent. on General Mortgage Bonds,	3,000,000			
To redeem Collaterals,	3,500,000			
And for working capital,	3,000,000			
			52,386,220	2,095,448
			$85,807,920	$4,233,055
Annual rental of leased lines not to exceed,				2,350,000
Total fixed charges,				$6,583,055
First Preference Income Bonds:				
For General Mortgage,		$11,946,880		
" Cash Subscriptions, viz.:—				
Inc's & Con. Adj. Scrip,	$9,834,730	$983,473		
First Series 5s,	7,738,329	773,833		
Second Series 5s,	7,275,053	1,091,257		
Convertible 7s,	6,349,000	952,350		
Deb. R. R. Co.,	652,200	97,830		
Deb. C. & I. Co.,	1,117,000	167,550		
Deb. & Guar. Scrip,	557,569	55,757		
Stock,	39,115,576	7,823,115		
Deferred Incomes,	20,751,090	518,777		
Total Cash Subscriptions,		12,463,942	24,410,822 @ 5%	1,220,542
Total including First Preference Income Bonds,			$110,218,742	$7,803,597
Second Preference Income Bonds:				
For Incomes and Con. Adj. Scrip,	$9,834,730			
Interest to May 31st, 1887,	2,323,368			
		$12,158,098		
" Deb. & Guar. Scrip,	$557,569			
Interest to May 31st, 1887,	149,719			
		707,288		
" First Series 5s,	7,738,329			
Interest to May 31st, 1887,	1,243,158			
		8,981,487		
" Second Series 5s,	7,275,053			
Interest to May 31st, 1887,	1,312,237			
	$8,587,290 @ 50 %	4,293,645	26,140,518 @ 5%	1,307,026
Total including Second Preference Income Bonds,			$136,359,260	$9,110,623

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			$136,359,260	$9,110,623
Third Preference Income Bonds.				
For Second Series 5s,	$7,275,053			
Interest to May 31st, 1887,	1,312,237			
	8,587,290 @ 50%	4,293,645		
" Convertible 7s,	6,349,000			
Interest to May 31st, 1887,	1,313,362	7,662,362		
" Deb. R. R. Co.,	652,200			
Interest to May 31st, 1887,	140,351	792,551		
" Deb. C. & I. Co.,	1,117,000			
Interest to May 31st, 1887,	269,308	1,386,308		
For Preferred Stock at $55 per share,		821,150	14,956,016 @ 5%	747,800
Total, including Third Preference Income Bonds,			$151,315,276	$9,858,423

Common Stock,	38,369,076
Deferred Incomes, $20,751,090, at issue price,	6,225,327
Total Capitalization,	$195,909,679

NOTE:—The above table includes the proposed compensation in First Preference Bonds for present General Mortgage Bonds in case the latter are not paid or purchased by July 1888, and also includes the amounts of Second and Third Preference Bonds proposed to be issued against the present junior obligations of the company now outstanding as collateral for the floating debt.

If the above are not used, the capitalization and the fixed and income charges will be as follows:—

Fixed charges, as above,	$85,807,920	$6,583,055
First Preference charges,	11,140,940	557,047
Total, including First Preference,	96,948,860	7,140,102
Second Preference charges,	16,232,620	811,631
Total, including Second Preference,	113,181,480	7,951,733
Third Preference charges,	12,065,520	603,276
Total, including Third Preference,	$125,247,000	$8,555,009

Common Stock,	38,369,076
Deferred Incomes, $20,751,090, at issue price,	6,225,327
Total Capitalization,	$169,841,403

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Reorganization by Foreclosure.

In case of reorganization after foreclosure, the present Plan, confined, however, to those who have deposited their securities and paid their subscriptions under it, will be followed with these exceptions :—

A.—In lieu of the First Preference Income Mortgage Bonds there will be issued First Preferred Stock with voting power, entitled to dividends of 5 per cent. non-cumulative, with the privilege of conversion into the common stock at par.

B.—In lieu of Second Preference Income Mortgage Bonds there will be issued Second Preferred Stock with voting power, entitled to non-cumulative dividends payable only out of earnings after payment of 5 per cent. dividends on the First Preferred Stock, with the privilege of conversion into common stock at par.

C.—In lieu of Third Preference Income Mortgage Bonds there will be issued Third Preferred Stock, with voting power, entitled to dividends of 5 per cent. non-cumulative, payable only out of earnings, after payment of 5 per cent. dividends on First Preferred Stock, and 5 per cent. dividends on Second Preferred Stock, with privilege of conversion into common stock at par.

D.—The Common Stock of the present company will be convertible at par, into Common Stock of the new company at par.

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E.—All Preferred and Common Stock of the new company must be deposited in the same voting trust provided in the above Plan of Reorganization without foreclosure.

F.—The Deferred Income Bonds will be convertible at par into like Deferred Income Bonds of the new company at par.

G.—The leased and controlled lines and guaranteed obligations will be provided for only on such terms and conditions as the Board of Reconstruction Trustees may deem proper.

H.—In the reorganization of the company no property will be disposed of, or aliened, without the consent of the Voting Trustees.

JOHN B. GARRETT, *Chairman.*
HENRY W. BARTOL,
SAMUEL R. SHIPLEY,
HARRY F. WEST,
HENRY A. DuPONT,
THOMAS COCHRAN,
EDWARD C. KNIGHT,
SAMUEL DICKSON,
JOHN LOWBER WELSH,
ALFRED SULLY,
ROBERT K. DOW,
JOHN WANAMAKER,
BEAUVEAU BORIE.

Reconstruction Trustees.

PHILADELPHIA, December 14th, 1886.

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OFFICE OF THE PHILADELPHIA AND READING RAILROAD COMPANY, 227 SOUTH 4TH-ST.,
PHILADELPHIA, Oct. 15, 1887.

TO THE HOLDERS OF THE FIRST SERIES FIVE PER CENT. CONSOLIDATED MORTGAGE BONDS.

The PHILADELPHIA AND READING RAILROAD COMPANY has agreed with certain holders of the
FIRST SERIES FIVE PER CENT. CONSOLIDATED MORTGAGE BONDS
who had declined to deposit the same under the plan of reorganization to settle upon the following terms, to wit:

1. Pay an assessment of 10 per cent. upon the par of their bonds to Messrs. BROWN BROTHERS & COMPANY, 4th and Chestnut sts., Philadelphia, the depository of the Board of Reconstruction Trustees, for which they will receive First Preference Income Mortgage Bonds.

2. Deposit with Messrs. BROWN BROTHERS & COMPANY all unpaid coupons together with that maturing Nov. 1, 1887, for which they will receive Second Preference Income Mortgage Bonds.

3. Present the bonds at the office of Messrs. BROWN BROTHERS & COMPANY to be stamped by them with an agreement making the same payable at the option of the Company at par and interest on the expiration of ten days' notice by advertisement in the "Public Ledger" in the city of Philadelphia; after which interest thereon will cease.

The PHILADELPHIA AND READING RAILROAD COMPANY has further agreed with the Board of Reconstruction Trustees to extend, and does hereby extend, the same terms to all the holders of certificates issued by Messrs. BROWN BROTHERS & COMPANY for First Series 5 per cent. Consolidated Mortgage Bonds who shall present their certificates of deposit at the office of Messrs. BROWN BROTHERS & COMPANY within ten days from this date for stamping thereon their acceptance of this offer of settlement.

AUSTIN CORBIN,
President.

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N.Y. Daily Times
June 12 1888

FINANCIAL.

The Philadelphia and Reading Railroad Company.

227 SOUTH 4TH-ST., PHILADELPHIA, June 6, 1888.

Notice is hereby given that, as provided for in the REORGANIZATION SCHEME, the PRINCIPAL of the OLD GENERAL MORTGAGE BONDS, with interest, accrued and unpaid, to July 1, 1888, will be purchased in CASH, on and after June 30, at the office of MESSRS. DREXEL & CO., Philadelphia, from and after which date interest on said bonds will cease.

AUSTIN CORBIN,
PRESIDENT.

Confirming the above notice issued by the PHILADELPHIA AND READING RAILROAD COMPANY, we further announce that our CERTIFICATES issued under the plan of reorganization for the PHILADELPHIA AND READING RAILROAD COMPANY'S SIX and SEVEN per cent. GENERAL MORTGAGE BONDS will be redeemed by us in cash on and after June 30, 1888.

INTEREST will cease on said CERTIFICATES after June 30, 1888. In order to prevent inconvenience to certificate holders we will be prepared to receive the same on and after June 25 and give in exchange therefor our checks payable June 30, 1888.

DREXEL & CO.

THE PHILADELPHIA AND READING RAILROAD COMPANY.

227 SOUTH 4TH ST.,
PHILADELPHIA, June 6, 1888.

The PRINCIPAL of all outstanding STERLING SCRIP, with interest to July 1, 1888, will be paid on Monday, July 2, 1888, at the office of MESSRS. DREXEL & CO., PHILADELPHIA, after which date interest will cease.

EUROPEAN holders may present their SCRIP to Messrs. J. S. MORGAN & CO., who are authorized to purchase the same.

AUSTIN CORBIN,
PRESIDENT.

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N. Y. Tribune June 23/1887

SETTLING UP RAILROAD DIFFERENCES.

ILADELPHIA, June 22 (*Special*).—The Construction tees of the Reading Railroad Company at their ing this afternoon offered to make a settlement with Schuylkill Navigation Company upon a basis of ,000 of fixed charges. This will be considered by Board of Directors of the Navigation Company to- row morning and it is stated that they will recom- d to the security holders of the company to accept erms. It is understood that terms of settlement also been reached between the Trustees and the uehanna Canal Company. The holders of the first s lives covering the Bound Brook line to New-York to-day that they will accept nothing but par and est and interest upon interest, but the rumor pre- in financial circles that an effort will be made to t a settlement based upon par and accrued interest.

N. Y. Tribune Jan. 22/1887

RECEIVERS FOR A CANAL COMPANY.

ILADELPHIA, Jan. 21 (*Special*).—On complaint of Mrs. a S. Hinckman, who holds $25,000 of bonds of the ylkill Navigation Company, Judge Butler to-day ap- ted Frederick Fraeley and William M. Tilghman re- ers of the company. The bill of complaint states up to January, 1884, the Philadelphia and Reading road Company, under its lease of the Schuylkill Nav- on Company, had paid the rental promptly, but that that time only a portion of the rental had been Judge Butler, after expressing himself regarding iverships in general in rather uncomplimentary s, promptly made the appointment, fixing the secur- the sum of $100,000. The receivers are to serve out any compensation until such time when the shall deem it proper that they should be remuner-

e Schuylkill Navigation Company has a claim against Reading for cars and boats, valued at $1,000,000. It imed that these mysteriously disappeared under the ding management and that marks of identification obliterated to prevent their being discovered.

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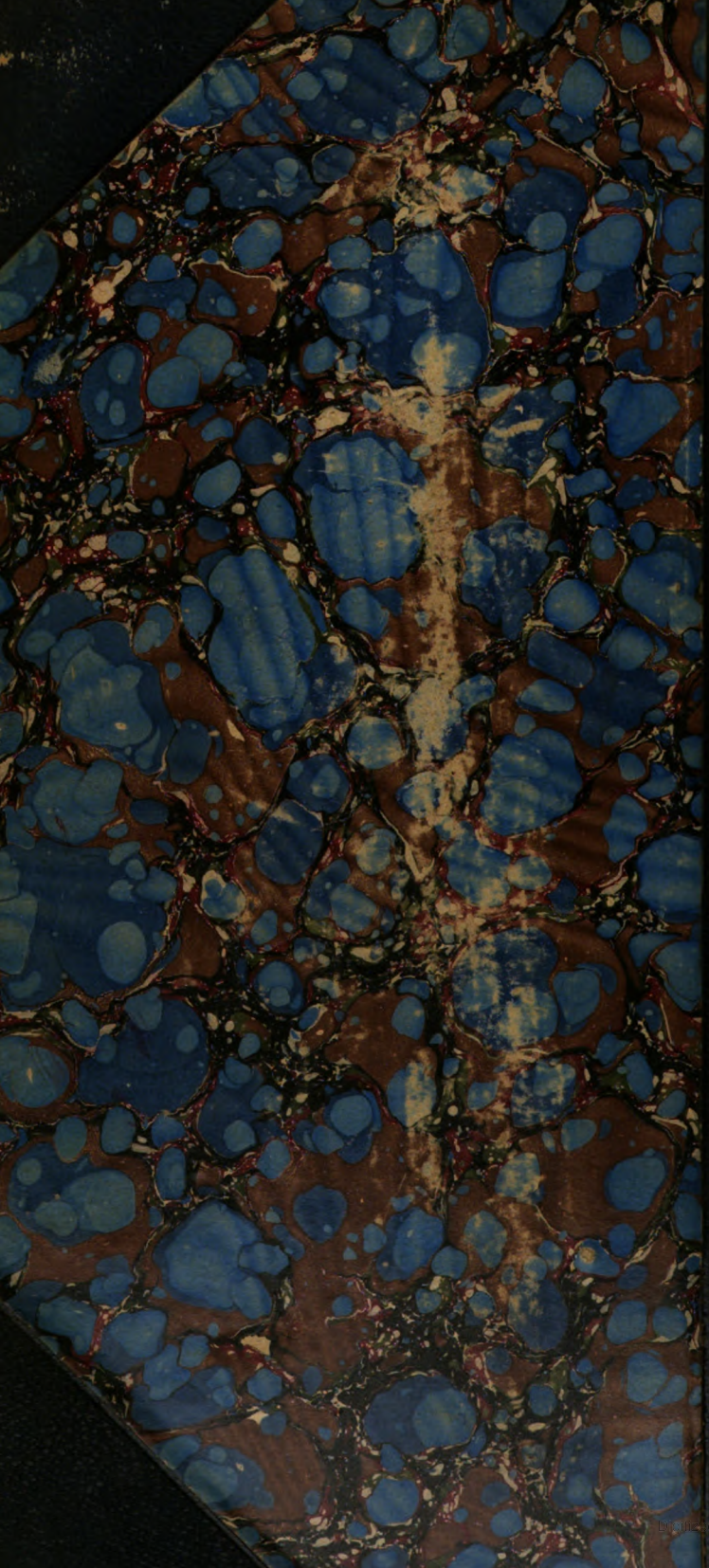
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